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ABBREVIATIONS

CES	Crosscut Evaluation System
EDA	Economic Development Administration
GAO	General Accounting Office
ILS	Industrial Location Service
OPCS	Operational Planning Control System
PWEDA	Public Works and Economic Development Act
SBA	Small Business Administration

DEC 10 1980

Item 546-D

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

ORIGINAL

More Can Be Done To Ensure That Industrial Parks Create New Jobs

Industrial parks help improve a depressed area's economy by attracting new businesses and industries which create new jobs. Although many parks financed by the Department of Commerce's Economic Development Administration have succeeded in improving the local economy, many others have failed to live up to expectations.

To make sure that industrial parks stand a good chance of attracting businesses and creating jobs, EDA needs to

--improve its use of feasibility studies,

--help park applicants attract businesses, and

--place tighter prohibitions on business relocations which merely shift employment and do not create new jobs.

CED-81-7
DECEMBER 2, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-201055

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses our review of industrial park projects funded by the Economic Development Administration. Because of the important role the funding of these projects can play in attracting businesses which in turn create jobs in distressed areas, we sought to assess the projects' effectiveness and to determine what management improvements are needed to maximize project accomplishments.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Commerce.

Comptroller General
of the United States

A

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MORE CAN BE DONE TO ENSURE THAT INDUSTRIAL PARKS CREATE NEW JOBS

D I G E S T

Industrial park projects funded by the Economic Development Administration (EDA) have helped distressed areas attract businesses, which in turn have saved or created jobs for area residents. GAO's review of 101 park projects, costing EDA about $41.4 million, showed that 383 businesses were located in these parks, saving or creating 27,072 jobs.

However, a number of park projects have problems: they have not attracted businesses, are not well utilized, and have not created nearly as many jobs as anticipated when the projects were proposed. To correct these problems, GAO is recommending that EDA

--improve assessments of the need for and location of proposed projects,

--establish a management assistance program to help underutilized projects attract businesses, and

--control business relocations.

Improvements are also needed to effectively monitor and assess project accomplishments.

Through fiscal year 1979, EDA obligated about $519 million in grants for about 1,130 park projects. GAO's review was based on visits to 26 projects in Louisiana, Mississippi, and Michigan and on questionnaire results of 75 other projects located throughout the country.

ASSESSING PROPOSED PROJECTS

Do industrial parks stand a good chance of attracting businesses and creating jobs for area residents? This question needs to be answered before park projects are approved. EDA does not require feasibility studies

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to assess whether projects are needed or whether they are favorably located to attract businesses. As a result, projects are being approved without adequate justification.

Feasibility studies had not been conducted for any of the 26 projects GAO visited. Had these assessments been made and reviewed by EDA, at least three of these projects, which have cost EDA $712,600 and have had little or no influence in attracting businesses, probably would not have been funded. (See pp. 6 to 8.)

EDA should require applicants 1/ to perform feasibility studies on proposed park projects to assess whether the projects are needed and are favorably located to attract businesses. (See p. 17.)

ESTABLISHING A MANAGEMENT ASSISTANCE PROGRAM

To protect the Federal Government's investment in park projects, EDA should establish a management assistance program to help the park applicants attract businesses to their parks. (See pp. 11 to 16.)

Although EDA relies on the applicants to market and promote their parks, the applicants generally do not have the time, resources, or expertise needed to attract businesses to their parks. Of the 26 park projects GAO visited, only three applicants personally contacted businesses to persuade them to locate in their parks. Because EDA relies heavily on the applicants to market and promote the parks, it should periodically assess the applicants' capabilities and plans for marketing and promoting their parks. (See pp. 11 and 12.)

Specific recommendations for establishing a management assistance program and assessing the marketing and promotion plans are on page 17.

1/Applicants can include any State, political subdivision, Indian tribe, or private or public nonprofit organization representing the area.

CONTROLLING BUSINESS RELOCATIONS

Although a primary purpose of EDA-funded industrial park projects is to attract new businesses or business expansions, 175, or about 46 percent, of the 383 businesses located in the parks reviewed are business relocations. Of these relocations, 33 should have been prohibited under EDA policy, and many of the other 142 relocations, although generally not prohibited, did not provide additional jobs for area residents.

EDA policy is that businesses relocating from one area of the country to another should not be allowed to locate in EDA-funded parks because this practice, in most cases, merely transfers jobs and unemployment problems. Despite this policy, prohibited business relocations occurred because EDA is unclear as to whether the administration of its policy applies to all businesses relocating from outside the area or only to those businesses relocating within a specified time period. Furthermore, park applicants are not, in all cases, adhering to their assurances that business relocations from other areas will not occur. (See pp. 22 to 26.)

Business relocations within the area of the park generally are allowed. However, many of these relocations are unjustified because the businesses merely moved to more attractive sites and did not provide additional jobs. Of the 142 businesses which relocated within the same labor area, 26 had either the same number of or fewer employees at their new locations than at their former sites, 28 increased employment by an average of fewer than three employees, and 9 abolished jobs when they relocated to the parks. In all instances, these businesses did not save any jobs because they probably would have remained at their former sites or found new sites in the areas had the parks not been developed. (See pp. 26 to 28.)

Specific recommendations for controlling business relocations are on page 29.

NEED TO MONITOR AND ASSESS PARK PROJECTS

Although it has been funding industrial park projects since 1966, EDA has not systematically gathered, monitored, or evaluated data on project accomplishments to judge their overall effectiveness.

Recognizing the need for such data, in November 1977 EDA began designing a system to monitor the impact and assess the effectiveness of its programs. The system is expected to be fully operational in late 1980. It includes a cost criterion for saving and creating jobs, time frames for realizing employment projections, and a way to measure actual employment accomplishments. However, because industrial park projects are unique in that they are designed to attract a number of businesses over a period of time, refinements to the system are needed for park projects. (See pp. 33 to 39.)

Another shortcoming in the system is that only projects funded since fiscal year 1979 will be included. As a result, it will be several years until park project accomplishment data will be available. To monitor and evaluate park projects now and to provide management assistance effectively, EDA should gather accomplishment data on park projects funded in the past. (See pp. 39 to 41.)

Specific recommendations on monitoring the impact and assessing the performance of industrial park projects are on page 42.

AGENCY COMMENTS

EDA generally agreed with GAO on the conclusions reached in the report and some of the recommendations. Disagreement stemmed primarily from the agency's philosophy that the Federal Government should not significantly intervene in the local development process and the agency's view that it is faced with administrative and funding restrictions.

Concerning EDA's comment that the Federal Government should not intervene in the local

development process, GAO believes that its recommendation for a management assistance program would not necessitate significant direct Federal intervention in the local development process but, rather, would be welcomed by the applicants who do not have the time, resources, or expertise to attract businesses on their own. Without assistance from EDA, many of the parks will probably continue to be vacant or underutilized.

GAO recognizes that administrative and funding restriction constraints could be impediments to providing the necessary corrective actions to the problems identified. Therefore, the recommendations contained in the report are made with the purpose of minimizing additional costs and preserving limited staff resources, where practical.

The agency's comments are incorporated in pertinent sections of the report and included as appendix III.

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PWEDA	Public Works and Economic Development Act
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CHAPTER 1

INTRODUCTION

The Public Works and Economic Development Act (PWEDA) of 1965 (42 U.S.C. 3121), as amended, was enacted to assist areas of substantial and persistent unemployment and underemployment. Because unemployment and underemployment cause hardships for many individuals and families in these areas, the Federal Government helps plan and finance area economic development. The act tries to help these areas to help themselves achieve lasting improvement and domestic prosperity by establishing stable and diversified economies and improved local conditions.

The act is administered by the Economic Development Administration (EDA), 1/ which is headed by the Assistant Secretary for Economic Development, Department of Commerce. EDA's headquarters is in Washington, D.C., and its six regional offices are in Philadelphia, Atlanta, Chicago, Austin, Denver, and Seattle. Regional office field representatives advise communities of EDA's programs.

To be eligible for EDA assistance, an area must meet one of the requirements set forth in title IV of the act. The term "area" includes counties, labor areas, census divisions of urban communities, and Indian reservations. Areas which qualify are those which have (1) substantial unemployment, (2) low median family incomes, (3) an unusual and abrupt rise in unemployment, (4) a large concentration of low-income persons, (5) substantial rural outmigration, and (6) economic deterioration. After an area qualifies, it must submit an Overall Economic Development Program to EDA to become a designated redevelopment area and be eligible for EDA program assistance. This program--prepared by the local planning organization--describes an area's environment and examines economic development opportunities. It also identifies projects for promoting economic progress and improving community facilities and services. The program is updated as changes occur.

The act authorizes a wide range of financial assistance to help economically distressed areas attract new industry, thereby creating new and permanent jobs. The principal assistance offered is public works and developmental facilities grants. Between fiscal years 1966 and 1979, EDA obligated

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1/EDA is the successor agency to the Area Redevelopment Administration in helping economically distressed areas.

about $2.5 billion in direct and supplemental grant assistance on about 5,400 public works projects, or about 52 percent of the $4.8 billion provided by all EDA programs authorized by PWEDA during this period. Other assistance includes public works and development facility loans, business development loans and guarantees, technical assistance and planning grants, and special economic development and adjustment assistance grants.

PUBLIC WORKS AND DEVELOPMENTAL FACILITIES GRANT PROGRAM

Title I of the act authorized EDA to make direct and supplemental grants for public works and developmental facilities projects. These projects help distressed areas suffering from high unemployment, low family incomes, and sparse financial resources to implement their area improvement projects. These projects support local and State improvement efforts by providing funds for basic facilities. These facilities promote general industrial and commercial growth by encouraging private enterprise to establish or expand job-generating activities in these areas.

Title I of the act states that EDA may make grants for public works and developmental facilities if the grant project will directly or indirectly

--tend to improve opportunities in the area for successfully establishing or expanding industrial or commercial plant facilities,

--otherwise assist in creating additional long-term employment opportunties, or

--primarily benefit the long-term unemployed and members of low-income families.

In addition, the project must fulfill a pressing need in the area and be consistent with its approved economic development plan. The types of projects funded under the Public Works and Developmental Facilities Grant Program are diverse--they include industrial parks; industrial and commercial development facilities such as water, sewer, and waste treatment facilities; port and harbor facilities; airport facilities; recreational and tourism facilities; skill-training centers; and health centers.

The funding of industrial park projects has played an important role in EDA's development strategies because their primary purpose is to upgrade the land in distressed areas

to make it attractive for industry to locate and create jobs. Between fiscal years 1966 and 1979, EDA obligated about $519 million in public works grant funds for about 1,130 park projects. This represents about 21 percent of the $2.5 billion obligated in direct and supplemental grant assistance under the public works program.

Industrial park projects

Although there is no standard or EDA definition of an industrial park, available criteria spell out the key elements which separate parks from other industrial or commercial projects. Generally, an industrial park is a tract of land that has a minimum number of acres suitable for industrial use because of topography, proper zoning, availability of utilities, and accessibility to transportation and is under the control and administration of a single entity. In addition, park usage is regulated by covenants that enable a group of industries to operate within the park efficiently.

EDA-funded park projects are primarily designed to upgrade the land in economically distressed areas so that it attracts new industries. In turn, new industries provide new jobs for the communities' unemployed, underemployed, and low-income residents and increase the communities' tax base.

EDA-funded industrial park projects can be used to develop new parks or to expand and/or improve existing ones. The types of facilities constructed in the parks vary from project to project, but they usually include a combination of paved streets or access roads; water storage, treatment, and distribution facilities; sewage collection and treatment; storm sewers; and railroad spurs or sidings. There are no limitations on park size; it can vary from only a few acres to thousands of acres.

Once an area is determined eligible for funds, EDA may make grants for industrial park projects to any State, political subdivision, Indian tribe, or private or public nonprofit organization representing the area. Like other title I projects, direct grants for industrial park projects are limited to 50 percent of the project's total costs. The amount of a supplemental grant depends on an area's degree of economic distress and the nature of the project. The combined direct and supplemental grants on a project cannot exceed 80 percent of its estimated cost, except for grants made to Indian tribes, which can amount to 100 percent.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review objectives were to determine how successful EDA-funded industrial park projects have been in attracting businesses and saving and creating jobs for area residents and whether agency management improvements are needed to maximize past and future park project accomplishments.

In conducting our review of EDA-funded industrial park projects, we interviewed EDA officials and reviewed policies, regulations, and procedures at EDA headquarters in Washington, D.C., and at regional offices in Atlanta, Georgia; Austin, Texas; and Chicago, Illinois.

The projects selected for review were based on an EDA computer run of all industrial park projects funded under the public works program as of September 22, 1978. From this run, which totaled 937 projects, we eliminated projects located in Puerto Rico and on Indian reservations, projects completed after June 30, 1976, and projects funded under the Public Works Impact Program. Reasons for eliminations are discussed in appendix II. After eliminations, our potential universe for review was reduced to 476 projects. From the 476 projects, we first selected 26 projects to review in detail through site visits and tried to determine the effectiveness of 150 other park projects by sending questionnaires to the park applicants and businesses located in the parks.

The 26 projects we visited were in Louisiana, Mississippi, and Michigan. These States were chosen because they had 107, or about 22 percent, of the 476 projects in the universe. The selection of the 26 projects visited was based on the geographic closeness of the projects in each State to maximize project visits. During our visits, we interviewed applicant representatives, park businesses, planning and development districts, State and local governments, and other community groups and organizations. We also reviewed the project files at the Atlanta, Austin, and Chicago regional offices and discussed the projects with EDA State representatives.

Questionnaires were sent to applicants of the 150 other park projects asking them to give us the names and addresses of the businesses located in their park projects so that another questionnaire could be sent to these businesses. Because some applicants either did not respond or responded that their projects were not for industrial parks and because some park businesses did not respond, we received complete results on 75 park projects. (See app. II for sampling selection, additional methodology used, and questionnaire results.)

CHAPTER 2

NEED TO BETTER ASSESS PROPOSED PROJECTS AND ESTABLISH A MANAGEMENT ASSISTANCE PROGRAM

EDA-funded industrial park projects have helped distressed areas attract businesses, which in turn have saved or created jobs for area residents. Overall, our review of 101 park projects between February 1979 and January 1980 showed that 383 businesses were located in these parks and that 27,072 jobs were saved or created. (See app. I.)

Despite this success, many park projects have not attracted businesses and created jobs as anticipated by park applicants. Our review of the 101 park projects showed that

- --10 percent of the projects were vacant, although they had been completed for an average of about 7 years;
- --38 percent of the projects had a park utilization rate 1/ of less than 25 percent although they had been completed for an average of 5-1/2 years; and
- --51 percent of the projects that had job projections actually met less than half of their projections for each project, even though these projects had been completed for an average of about 6 years. Also, these projects together had met only 15 percent of their projections.

To maximize past and future project accomplishments and prevent the park results noted above from recurring, EDA needs to improve its management of industrial park projects by

- --assessing whether proposed projects are needed and are favorably located to attract businesses before being approved and

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1/Percentage of park acres occupied by businesses as compared with park acres available to be occupied.

--establishing a management assistance program to help projects that have had little or no success in attracting businesses and creating jobs.

NEED TO BETTER ASSESS PROPOSED PROJECTS

Although EDA has developed guidelines for industrial park feasibility studies, it does not require its applicants, when requesting funding for industrial park projects, to submit studies based on an assessment of the need for the project and whether the project is favorably located to attract businesses. As a result, EDA approves park projects without adequate justification to ensure that the proposed parks will be successful in attracting businesses and creating jobs for the area residents.

We reviewed the project files for the 26 park projects that we visited and found that no feasibility studies were made to determine whether the projects were needed or were favorably located to attract industry. If feasibility studies had contained these assessments and their contents had been carefully analyzed by EDA, some of these projects, which at the time of our review were vacant or poorly utilized, may not have been approved.

In 1968 EDA, through its technical assistance staff, developed guidelines to perform economic and technical feasibility studies of proposed industrial park sites. As part of the guidelines, EDA stated that feasibility studies should include an inventory and analysis of the specific economic and physical resources of the area where the proposed park is to be located. This inventory and analysis would determine if the proposed park site could attract businesses. The guidelines outlined in detail the specific economic and physical resources of the area to be considered. These included the (1) types of natural resources and their proximity to major sources of raw material, (2) adequacy of the labor force, (3) adequacy of the transportation system, (4) adequacy of the utilities and communications systems, (5) economic makeup of the area, and (6) competitive position of the proposed site in relation to other existing and potential industrial sites in the area.

We asked the public works staffs at the EDA regional offices why feasibility studies assessing the need for the projects and whether they were favorably located were not performed on the projects we reviewed even though guidelines have been developed for such studies. We were told by the staffs that the feasibility study guidelines are primarily designed to help EDA's technical assistance staff determine

whether facilities being placed in a proposed park are technically feasible and adequate--that is, to determine whether placing utilities, access roads, etc., on park property is feasible--rather than to determine whether a need for the project exists or whether the project is favorably located to attract businesses. We were told that the applicants' city engineer usually performs the technical feasibility study on the project facilities and this information is reviewed and appropriate recommendations made by EDA's technical assistance staff. The information then becomes part of the project file and may be used when considering project funding.

Although we did not specifically review each of the projects visited to determine whether they should have been funded, we did note that if EDA had required feasibility studies in accordance with the guidelines established by its technical assistance staff, and if the studies had been carefully reviewed by EDA, at least three of the projects visited probably would not have been funded. These three projects, which cost EDA $712,600 and are outlined below, have had little or no success in attracting businesses and creating jobs.

--EDA, in June 1972, approved a 37-acre industrial park in northeast Michigan. The project, which cost EDA $118,400, was approved to provide industrial diversification for the area and to increase employment in the county. It was anticipated that the project would attract businesses and create at least 60 jobs in the area. During our visit to the project, we noted that the park project location was geographically isolated--the nearest major highway was more than 40 miles away and the local airport had no commercial flights. In addition, most area businesses were associated with a large steel company, and the business' employees were unionized and their hourly wages were well above the hourly incomes of employees from the surrounding area, who were not unionized. As a result, other businesses were discouraged from locating in the area. At the time of our visit, which was about 40 months after the park project was completed, the park remained vacant.

--EDA approved a 57-acre park project in February 1970 in a rural Michigan community which, at that time, had a population of 2,684. The project cost EDA $538,000. In April 1972, about 7 months before the 57-acre park project was completed, EDA

approved another 60-acre park project in a rural community 3 miles away, which in 1970 had a population of 1,150. This project cost EDA $267,200. It was anticipated that the 60-acre park project would create 93 jobs for area residents. Because of the close proximity of these parks and the relatively small number of people living in these communities, it seems unlikely that this area could support two successful park projects. Both parks are having problems in attracting businesses. The 57-acre park, which had been complete for 80 months at the time of our visit, had met its projected employment but was only about 50 percent occupied. The 60-acre park, which had been completed for 37 months at the time of our visit, had attracted only one business, which employed 20 people, and occupied 9 of the available 60 acres of park land.

--EDA approved a 20-acre park project in June 1971 in a small Louisiana community. The project cost EDA $327,000. EDA approved the project because the applicant had a commitment from a business to locate in the park. It was anticipated that the business would create 141 jobs and that more businesses would locate in the future and create more jobs. However, before the park project was completed, the owner of the business died and the business was never started. At the time of our visit, about 61 months after the project had been completed, the park remained vacant. We asked the applicant why no other businesses had located in the park. We were told that since the park was completed, two businesses had expressed interest in locating in the park; however, one business located in an EDA-funded park 16 miles away because that park had access to the waterways. The other business located in an EDA-funded park 6 miles away because that park had a better labor supply, was near an airport, and had more suitable rail conditions for the business. In addition, EDA's economic development representative for Louisiana, commenting on vacant EDA-funded parks in that State, said that the park was poorly located for general transportation needs.

If EDA had assessed the projects' needs and whether they were favorably located to attract businesses, we believe that the (1) inadequate labor force, (2) inadequate transportation system, and (3) poor competitive position of the proposed sites in relation to other sites in the area would have been highlighted, thus making it likely that these projects would not have been funded.

EDA has recognized that it funded park projects near other parks

Concerning the competitive position of the proposed sites in relation to other sites in the area, EDA recognized that it was funding park projects that were near other industrial parks that had excess capacity. In a June 27, 1977, memorandum, EDA's Deputy Assistant Secretary for Operations directed the public works chiefs in each regional office to justify the funding of new park projects in areas where other parks already existed regardless of whether the existing parks were funded by EDA or by some other organization. As part of that justification, the Deputy Assistant Secretary stated that if other parks existed within a 25-mile radius, the existing parks' occupancy rate would have to be determined, and if the parks had unused capacity, an explanation of why additional space should be developed would be necessary.

In a followup memorandum in October 1977, the Deputy Assistant Secretary for Operations clarified his position. He said that for EDA to select potentially successful industrial park projects, more information was needed for a more complete assessment of the industrial space existing in the area. This information included

--number of existing developed industrial parks and their acreage;

--occupancy rate, type of industry, and number of employees within the existing park;

--the classification of the types of available industrial space, such as whether the space is suitable for heavy or light industry, is vertical or horizontal space, and a description of the environment surrounding the existing parks; and

--the parks' accessibility to transportation and markets.

The October memorandum also stated that the 25-mile radius would be retained for proposed projects in rural areas. However, the prescribed area to report industrial park information on existing projects for projects proposed in urban areas should be the redevelopment area or the political jurisdiction where the proposed project is to be located, whichever is smaller. The memorandum further stated that additional information should be considered for proposed park projects in urban areas. This additional information included the (1) quality of available space, (2) reasons for availability of existing space, (3) feasibility of using existing

space, and (4) effect of the proposed project on the area's commercial and residential sections.

Although these memorandums were not in effect for the park projects included in our sample, EDA continues to approve park projects in areas close to existing ones and where excess capacity still remains. We noted that two projects approved after the Deputy Assistant Secretary for Operations' memorandums, were in the same economic development district where EDA had previously approved six other park projects. The two projects were both located in rural areas and were approved despite being within 25 miles of other parks with excess capacity.

One project was approved in August 1979 at an estimated cost to EDA of $330,000. The project was to expand an existing non-EDA park from 29 to 52 acres by providing additional water capacity to the park and constructing access roads, a railroad spur, and a truck staging area. The park project was approved even though at the time of approval an EDA-funded, 177-acre park about 10 miles away was vacant, and a 50-acre, non-EDA park about 15 miles away still had 19 unused acres. EDA's justification for approving the park project was that two rail-oriented businesses wanted to locate in the park because it had ready access to a railroad while the other two parks did not. In discussing the project with the applicant, we were told that the two prospective businesses planned to locate on the original 29 acres, and the 23 acres developed with the EDA-funded project would be used for future expansion.

The other project was approved in July 1978 to construct a 70-acre park at an estimated cost to EDA of $649,200. The project was approved because the applicant had a commitment from a business to locate in the park, and the business would create 100 new jobs initially and an additional 200 jobs within 3 years. The project was approved even though an EDA-funded, 20-acre park 6 miles away was vacant, and another EDA-funded, 17-acre park 16 miles away had 8 unused acres remaining. EDA justified project approval because (1) the prospective business wanted to use 30 acres of park land and neither of the other two parks had the needed acreage, (2) the 20-acre vacant park did not have access to a railroad, and (3) the weight-bearing capacity of the 20-acre park's soil was not sufficient for the needs of the prospective business. In discussing the 70-acre park project with the applicant, we were told that the railroad spur was deleted from the project because the railroad tracks that had run alongside the project were taken apart. When reviewing the project file for the 20-acre vacant park, we also noted that

the applicant had an option to purchase 16 additional acres adjacent to the 20 acres.

The chief, Public Works Division, of the EDA regional office where these two projects were approved said that the region's basic philosophy is to fund industrial park projects if the project has a prospective business commitment and will result in immediate jobs. He said that the region does inventory other park projects located within 25 miles of the proposed project, but if the parks are not feasible for a prospective business to locate in, the region will fund additional projects. He said that the region will not postpone approving park projects just to fill vacant acreage at existing parks.

Based on the above two examples, the June and October 1977 memorandums issued by EDA's Deputy Assistant Secretary for Operations have not been effective in curtailing the funding of industrial park projects that are located near other park projects with excess capacity. Rather, continuing to fund projects based on a commitment from a business may cause additional excess capacity in the area. Since our review was limited to the two examples cited above, we do not know how widespread is the practice of funding additional parks in areas where existing parks have excess capacity. However, based on the philosophy of the regional office where these projects were funded, it may be prevalent for projects funded by that region.

We also believe that the two examples cited above reinforce our position that assessments need to be performed on proposed park projects to determine whether a need for the project exists or whether the projects are favorably located to attract businesses.

NEED FOR A MANAGEMENT ASSISTANCE PROGRAM

EDA does not have a management assistance program to help applicants who have problems attracting businesses to locate in and use their industrial parks. EDA's involvement with its park projects generally ends when the construction of the park is physically complete; it relies on the applicants to market and promote their own parks. (EDA does have a management assistance program for parks it has funded on Indian reservations.) Although applicants should bear overall responsibility for marketing and promoting their parks, EDA needs to help parks that are vacant or have low utilization rates to protect the Federal Government's investment in such projects.

During our review of the 101 park projects, we found that 10 parks were vacant even though they had been completed for an average of about 7 years; 22 other parks, completed for an average of 5 years, had attracted only 39 businesses and had an average park utilization rate of about 12 percent. Although part of this problem may be attributed to the feasibility of funding some of these parks, a significant factor, based on visits to 26 park projects, is that applicants generally do not have the time, resources, or expertise to actively market and promote their parks to attract businesses.

Our review of 26 park projects visited showed that in 10 cases the applicants did no promoting of their parks, and in the remaining 16 cases, park promotion was generally limited to advertising in various local, State, and/or trade publications and mailing out brochures containing information about the community. In only three cases did the applicants personally contact businesses and try to persuade them to locate or expand their operations in the industrial parks. Because EDA relies heavily on the applicants to promote their parks, it needs to assess their capabilities and plans for marketing and promoting their parks and periodically determine how these plans are being carried out to attract businesses.

Our review also showed that because EDA does not have a management assistance program, it has done little to help applicants find businesses for parks. We noted that two parks that were vacant at the time of our visits might have been helped if EDA had had a management assistance program. In both cases, EDA expressed concern that the parks were vacant but did not offer help in finding occupants.

We discussed the need for EDA to help parks that have remained vacant or that are poorly used with the three regional offices we visited. After our discussion, one regional office director directed the economic development representatives in the region to prepare quarterly reports, beginning May 1979, identifying all EDA-funded vacant parks in the region. A reporting format was also devised for use by each of the representatives in compiling information on the vacant parks, assessing the local communities' attitudes toward industrial expansion, and to comment and make suggestions on how EDA can trigger actions to attract businesses to the parks.

In followup discussions with the region, we were told that the reports had been useful to identify vacant parks and determine the communities' attitudes toward industrial expansion and what actions have been or are planned by the applicants to attract businesses.

Recommendations have been made in the past on the need for management assistance efforts

EDA, through its Office of Management and Administration (formerly the Office of Administration and Program Analysis), has evaluated its industrial park projects in the past. In two such evaluations, 1/ EDA recognized the need to become more involved in providing management assistance to help attract additional businesses to its vacant and underutilized parks. The 1973 evaluation made the following recommendations:

> "EDA should become much more involved in the operational phase of EDA financed industrial parks, particularly in the area of promotional activities intended to attract industry to distressed area industrial parks. EDA should use technical assistance funds to pilot test the promotion of approximately 20 industrial parks that are either unoccupied or less than 50 percent occupied and have been in operation for from 12 to 22 months."
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> "EDA should directly employ, both nationally and regionally, industrial location specialists, whose primary responsibility should be the attraction of industry to EDA designated areas. These specialists should particularly concentrate on attracting industry for the approximately 78 percent of developed industrial park acreage that is unoccupied."

The 1974 evaluation recommended that

> "* * * There is a need for more co-ordination between EDA's public works, technical assistance, and business loan programs. Preferential treatment could be given to firms seeking to locate in areas where substantial EDA-funded industrial park acreage exists.

1/"Industrial Parks Funded by the Economic Development Administration," April 1973, and "An Updated Evaluation of EDA-Funded Industrial Parks 1968-1974," June 1974, Office of Administration and Program Analysis, EDA, Department of Commerce.

"* * * There is also a need for co-ordination between the Agency and the Small Business Administration [SBA]. The larger SBA loan program offers great potential leverage for encouraging businesses to locate in economically depressed areas.

"* * * Greater emphasis must be placed on filling industrial parks. At present, involvement with industrial parks occurs primarily at the development stage. Many park officials complained about a lack of resources, including personnel, with which to promote the park. Greater Agency involvement in promotional activities through technical assistance, planning grants, and business loans programs is required. The Agency should also strive to increase the effectiveness of the Economic Development Districts and the States in selecting industrial park sites and in attracting industry to economically distressed areas through leadership, technical assistance, and greater co-operation."

We discussed these recommendations with the Deputy Director of EDA's Office of Public Investments. We were told that these recommendations were implemented for park projects located on Indian reservations but not for others because the agency does not have enough staff or resources. We were told that establishing a management assistance program to help attract businesses to parks on Indian reservations was feasible because EDA's investment in these parks is relatively small and only a small staff is needed. The Deputy Director said that because EDA's park investments on non-Indian reservations are much larger, a much larger staff would be needed to provide them with management assistance.

Management assistance is being given to parks on Indian reservations

In November 1973 EDA established the Indian Industrial Development Office to help develop self-sustaining economies on Indian reservations. One of the primary reasons for creating the Office was to help Indian tribes attract businesses since many of their EDA-funded industrial parks were not being aggressively promoted and were vacant or poorly utilized. During discussions with the Director of that Office, we were told that management assistance was being provided to increase the use of EDA parks. These efforts included

--working with tribal leaders to evaluate the reservations' potential for developing promotional programs,

--providing technical and management assistance to businesses in the parks to produce and market their products,

--conducting an ongoing contact program with growth companies throughout the country to encourage them to establish branch plants or joint ventures in the parks, and

--giving priority for business development loans to qualified businesses that locate in industrial parks on Indian reservations.

We were told that these initiatives have resulted in attracting 29 businesses to locate on Indian reservation lands since November 1973. Sixteen of these businesses located in 15 industrial parks are on Indian reservations.

EDA, through its fiscal year 1980 Indian program strategy, has also developed additional initiatives concerning industrial parks located on Indian reservations. Of the 49 park projects that have been funded on Indian reservations, EDA has identified 14 (4 under construction and 10 constructed but vacant) that need to be examined to determine their potential to create and expand both Indian-owned and privately owned businesses in these parks. As part of that examination, EDA will use in-house staff and consultant services to (1) study the parks' industrial potential, (2) develop an action plan for parks with potential, and (3) identify alternate uses for parks with no industrial potential.

EDA has the capability to identify and attract businesses to its industrial parks

EDA does have the capability to determine what types of businesses would be attracted to its industrial parks. Through its Industrial Location Service (ILS), EDA had developed a computerized system that matched the basic economic location requirements of certain growth businesses with the economic location factors of selected areas eligible for EDA assistance. The system was designed to improve local planning efforts by helping areas eligible for EDA assistance to identify businesses that could operate profitably within them and to help businesses identify economic development areas that would be best suited for future expansion. The system was developed because many eligible areas are small, little-known towns and cities whose local leaders did not have the expertise to identify businesses that would find their locations

attractive. Also, businesses would often overlook these towns and cities when seeking new plant sites for future expansion.

As a result of the computer match, which was initially conducted in 1971 and is continually being updated, ILS can determine which of its economic development areas would be best suited and meet the needs of about 2,650 growth businesses that may wish to expand their operations in the future. We believe that this data could be used as a valuable tool by EDA to provide management assistance to applicants having problems in attracting businesses to their industrial parks.

Although the Deputy Director of the Office of Public Investments said that the agency does not have enough staff or resources to properly implement management assistance efforts for park projects located on other than Indian reservations, we believe that providing management assistance is necessary to maximize project accomplishments and to protect the Federal Government's investment in such projects. We believe that the cost of establishing a management assistance program to help applicants who have problems attracting businesses can be minimized by

--using the ILS to determine the types of businesses that would be best suited to locate in these parks;

--adopting the Office of Management and Administration's recommendations to directly employ industrial location specialists to attract businesses and coordinate between the Office of Public Investments and the Office of Development Finance Projects in giving priority for business development loans to qualified businesses that locate in the parks; and

--requiring the regional offices to prepare periodic reports identifying vacant and poorly utilized parks, develop possible solutions to attract businesses, and assess the applicants' marketing and promotion plans and their progress in attracting businesses.

CONCLUSIONS

EDA-funded industrial park projects have been successful in attracting businesses and saving and creating jobs in distressed areas. However, a number of projects have problems: they have not attracted businesses, are not well utilized, and have not created nearly as many jobs as were anticipated when the projects were proposed.

A number of park projects have not been successful for two main reasons: (1) feasibility studies are not performed to assess whether the proposed projects are needed and are favorably located to attract businesses and (2) EDA does not have a management assistance program to help applicants who are having problems attracting businesses to their parks.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

To maximize past and future industrial park accomplishments, we recommend that the Secretary of Commerce direct the Assistant Secretary for Economic Development to:

--Require applicants to perform feasibility studies on all proposed industrial park projects. These studies should include an assessment of whether the project is needed and whether it is favorably located to attract businesses.

--Establish a management assistance program to help applicants that have problems attracting businesses to their industrial parks. After this program is established, the Industrial Location Service should be used to determine the types of businesses that would be best suited to locate in the parks, and the recommendations made by the Office of Management and Administration on management assistance efforts should be adopted.

--Require regional offices to prepare periodic reports identifying vacant and underutilized parks and develop possible solutions to attract businesses to them. The reports should also assess the applicants' marketing and promotion plans and their progress in attracting businesses to the parks.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of our report (see app. III), EDA acknowleged that it needs to obtain enough information from the applicants to make feasibility reviews of proposed projects; however, it believes this information can be provided by the applicants to EDA without requiring the applicants to perform "official" feasibility studies on all proposed projects. Although the agency said that feasibility studies may be necessary in certain cases to make judgments about the viability of industrial parks, it did not elaborate on when these feasibility studies would be necessary. EDA said that its review of the data submitted by the applicants is more critical than the requirement

that applicants submit feasibility studies. The agency said that it needs to train its existing staff to assure that professional decisions can be made on proposed projects. EDA agreed that the guidelines it developed in 1968 on economic and technical feasibility studies could be modified to be useful for reviews of all potential industrial park projects.

We agree that EDA's review of the data submitted by the applicants is critical; however, we found instances (see pp. 7 and 8) where EDA approved park projects without adequate justification to ensure that the proposed parks could be successful in attracting businesses and creating jobs for area residents.

Our recommendation was not intended to require applicants to perform elaborate "official" feasibility studies on all proposed projects. Rather, the recommendation is intended to require that applicants determine whether the proposed projects are economically as well as technically feasible. To do this, the applicants need to assess whether there is a need for industrial parks in their areas and whether the parks are favorably located to attract businesses. We believe that applicants can properly make assessments if they are required to gather and document the specific data called for by EDA in its 1968 guidelines for performing economic and technical feasibility studies. We believe that if the applicants were required to gather and document this data and include it in their project proposals, and if EDA does train its existing staff to carefully review the data before project approvals, the parks would stand a better chance of attracting businesses and creating jobs for area residents.

EDA disagreed with our recommendation that it establish a management assistance program to help applicants that have problems attracting businesses to their parks. The disagreement is based on EDA's philosophy that the Federal Government should not intervene in the local development process. EDA said that:

> "The Management Assistance program suggested in the report would necessitate significant direct Federal intervention in the local development process. The report suggests that EDA become directly involved in the location of industries. We do not believe that is an appropriate role for the Federal government. * * *"

The agency said that although it agreed that it should be concerned about the success of its investments, a substantial amount of the funds is provided by the localities and, therefore, EDA considers industrial parks to be local facilities and the agency cannot superimpose its will upon the applicants. The agency also said that a management assistance program would not be a panacea for its industrial parks.

EDA agreed that it is essential that the agency consider the management and marketing capacity of the applicants when funding industrial parks. Although the agency said that it cannot legally use technical assistance funds to hire its own personnel, it said that when staffing its regional offices it will look for people with a background in industrial location and marketing along with other economic development skills. The agency said that since it cannot afford the luxury of full-time industrial location specialists, the management capacity of existing applicants should be analyzed and improved and the resources of existing State and regional organizations should be used. EDA said that it will continue to encourage and provide funding for public interest groups to train, through conferences and workshops, local officials who operate or plan to operate industrial parks. The agency said that it will also continue to encourage economic development district organizations to provide localities with their expertise.

EDA said that it is looking into the effectiveness of the ILS and it will consider our recommendation in making a decision on ILS' future. Concerning the recommendation on management assistance efforts made by EDA's Office of Management and Administration, the agency agreed that coordination among its various programs is necessary and it has been attempting to achieve that coordination. The agency agreed that there should be increased coordination between EDA and SBA, but that the coordination should be at the local level. EDA also agreed that development finance assistance should be given to businesses which agree to locate in EDA-funded industrial parks.

We disagree with EDA's contention that establishing a management assistance program as recommended in the report would necessitate significant direct Federal intervention in the local development process. The management assistance program called for in the report is to help applicants that are having problems attracting businesses to their industrial parks. As discussed on page 12 of the report, a significant factor which has caused many parks to be underutilized is that applicants generally do not have the time, resources, or expertise to actively

market and promote their parks to attract businesses. We believe most applicants who are having problems attracting businesses to their parks would welcome management assistance efforts from EDA.

Concerning the agency's comment that it cannot legally use technical assistance funds to hire its own personnel, we have deleted the suggestion that these funds be used but do agree with EDA that when staffing its regional offices it should look for people with backgrounds in industrial location and marketing along with other economic development skills.

Although we agree with the agency that the applicants should bear the overall responsiblity for marketing and promoting their parks, we also believe that since EDA funds between 50 and 80 percent of the cost to construct these parks, it needs to help the applicants of vacant or underutilized parks attract businesses to protect the Federal Government's investment in such parks. EDA's stated actions to (1) assess the management and marketing capacity of the applicants when funding park projects, (2) encourage and provide funding for public interest groups to train officials operating or planning to operate industrial parks, and (3) encourage economic development district organizations to provide applicants with their expertise should help applicants in promoting and marketing the parks. However, unless EDA establishes a management assistance program to help applicants who do not have the time, resources, or expertise to attract businesses, many of the EDA-funded parks will probably continue to be vacant or underutilized.

EDA agreed that periodic reports on the utilization of industrial parks would be useful and that it will initiate action to require them. EDA said that it can utilize the reports to appraise the management capacity of an area to determine the area's future needs and problems. Although EDA disagreed that it should use the information contained in the reports to develop solutions to attract businesses, it said that the economic development districts and other appropriate organizations can use the information to determine what assistance can be provided to the localities involved. Although we agree that the economic development districts and other appropriate organizations can use the information to help the localities, we believe that EDA, as part of its management assistance program, should also use the report information to develop solutions to attract businesses to vacant and underutilized parks.

EDA said that conclusions drawn from the disparity between actual and projected jobs for the projects we reviewed are of little importance because the job projections made during the period covered by the review were optimistically inflated and not based on a sound methodology. We agree that the applicants' job projections were not always based on a sound methodology and may have been inflated in some instances. However, we noted other instances where the projects' job projections were probably deflated because the projections were based only on commitments from businesses that planned to locate when the parks are completed; no consideration was given to projected jobs from businesses that may locate in these parks in the future. Our conclusions were not based solely on whether the projects reviewed failed to meet the original job projections; they were based on the fact that some projects remained vacant or underutilized--as well as the fact that, in many cases, substantially fewer actual jobs were saved and/or created than projected. Furthermore, the fact that applicants' job projections are not always based on a sound methodology reinforces our position that applicants be required to determine whether the proposed projects are economically as well as technically feasible and that EDA carefully review the data before project approvals.

CHAPTER 3

NEED TO MORE EFFECTIVELY CONTROL BUSINESS RELOCATIONS

The primary purpose of EDA-funded industrial parks is to provide economically distressed areas with the facilities needed to attract new businesses or business expansions, which in turn create new jobs for area residents. Despite this purpose, 175, or 46 percent, of the 383 businesses located in the parks reviewed are business relocations. Of these relocations, 33 are from outside the labor area, 1/ which should be prohibited under EDA policy. The remaining 142 are relocations from within the area, which although not usually prohibited, do not always provide more jobs for area residents.

For relocations from outside the area, EDA needs to revise its administration of the non-relocation policy so that it clearly applies to all businesses planning to enter EDA-funded industrial parks. EDA also needs to monitor the businesses locating in the parks to be sure the non-relocation policy is not being violated. For relocations from within the area, EDA needs to develop criteria which will minimize these relocations and emphasize to its applicants that park projects are designed to provide new employment opportunities by attracting new businesses or business expansions, rather than to be used as vehicles for relocating existing area businesses to more attractive sites.

BUSINESSES ARE RELOCATING FROM OUTSIDE THE AREA DESPITE EDA PROHIBITIONS

EDA states that all programs and benefits under PWEDA, including industrial park projects, will be administered with strict adherence to the policy of denying assistance to businesses which have recently relocated and to those that are

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1/A labor area is a geographic area that has a concentration of economic activity and labor demand and in which workers can readily change jobs without changing their residence. It may include one or more counties with the maximum distance from one labor area to another generally being less than one hour's drive. In our review, relocations were considered from outside the labor area only if the relocation from the prior site to the park involved a distance of more than 60 miles.

seeking to relocate from one labor area of the country to another. EDA administers this policy by seeking assurances from applicants that projects will not be used to assist businesses which have recently relocated into the areas or businesses that are intending to relocate.

Our review showed that the non-relocation policy and applicant assurances were not always effective in prohibiting relocations. We noted that 33 businesses had relocated from one labor area to another. In 18 instances, these relocations occurred because the administration of EDA's non-relocation policy was unclear to some EDA regional office personnel as to whether it applied to all businesses intending to relocate into the parks or was limited to businesses intending to relocate within the first 2 years after EDA accepted the parks as complete; the relocations occurred in 15 instances because the applicants did not adhere to the relocation assurances.

Administration of the non-relocation policy is unclear

Section 202(b)(1) of PWEDA provides that EDA financial assistance shall not be used to assist industrial or commercial businesses in relocating from one area to another. This provision was included because this practice merely transfers jobs and unemployment problems rather than creating new jobs and helping solve the unemployment problems. Although section 202(b)(1) of the act specifically applies only to the Business Development Assistance Program, EDA applies this non-relocation prohibition to all sections of the act, including the funding of industrial park projects under the public works program.

Although EDA applies the non-relocation provision to industrial park projects, it is unclear whether EDA applied it to all businesses intending to locate in the parks or only to businesses that intended to locate in the parks within 2 years after EDA accepted the parks as complete. Even though the administration of the non-relocation policy was revised in October 1978--subsequent to the date of the projects we reviewed--the administration of the policy remains unclear.

For the projects in our review, EDA administered the non-relocation policy by requiring industrial park applicants to sign two forms. On one form, a Certificate of Non-Relocation (ED-501), the applicant certified that the proposed project was not undertaken to serve businesses that had relocated into the area during the past 2 years or to assist, solicit, negotiate with, or encourage these businesses to relocate into the proposed project. The form also required that if the applicant had reached agreement with any business to locate in the park before final disbursement of EDA funds,

the applicant would have to notify EDA of this agreement and submit the business' name. On the other form, an EDA covenant (ED-153), the applicant agreed that for 2 years from the date the industrial park project was accepted by EDA, the applicant would not sell, lease, or make any part of the park facilities available for occupancy by a business unless the business first signed a Certificate of Non-Relocation stating that it did not intend to relocate from another labor area into the park. After the 2-year period this certification was not necessary.

Some EDA regional office officials interpreted the 2-year clause in the covenant to mean that businesses could relocate from other areas 2 years after EDA accepted the park projects as complete. However, other EDA regional office officials stated that this 2-year period was not intended to relieve applicants of complying with the non-relocation policy but only to relieve them from the burden of requiring all future businesses to certify that they are not relocating from other areas.

Our review noted that in 18 instances, businesses relocated into the parks after the 2-year period had terminated. Because of the unclear administration of the non-relocation policy, EDA regional office staff in the Public Works Division could not tell us whether these instances violated the non-relocation policy or whether the covenant permitted the applicants to let businesses relocate into the parks.

EDA revised its application process in October 1978 to reduce applicants' paperwork when applying for EDA assistance. As part of this process, EDA eliminated the covenant. However, EDA kept the requirement for a Certificate of Non-Relocation.

We asked the Deputy Director, Office of Public Investments, whether this change meant that the non-relocation provision applied only to businesses that had reached agreement to locate in parks before EDA's final disbursement, or for all business relocations from other areas. We were told that EDA does not know how long the non-relocation provision should stay in effect for industrial park projects. We were also told that EDA now wants to assure that relocations from other areas do not occur before the final disbursement of project funds (generally about 1 year after the project construction is completed). The Deputy Director said that since some industrial park projects may take an indefinite number of years to become fully occupied, it does not seem feasible to keep the non-relocation provision in effect indefinitely.

Applicants do not always adhere to non-relocation policy

EDA's administration of the non-relocation policy was unclear for businesses that planned to relocate into its parks from other areas 2 years after EDA accepted the park project as complete. However, it was clear that EDA's administration of the policy did prohibit from relocating into its parks those businesses that had relocated in park areas within the past 2 years, that planned to relocate before final disbursement of EDA funds, or that planned to relocate within 2 years after EDA accepted the project. Although EDA received Certificates of Non-Relocation from the applicants, our review showed that prohibited relocations did occur in 15 instances. In nine instances, the relocations occurred before final disbursement of EDA funds, in two instances the businesses had relocated to the area within the past 2 years, and in four instances the businesses relocated into the parks within 2 years after EDA accepted the parks as complete. Under EDA's revised administration of the non-relocation policy, the last four instances may not be violations of the applicants' assurances.

EDA states that it does not monitor projects for non-relocation violations but instead relies on the applicants' certifications that relocations from other areas will not occur. The regional counsel for an EDA regional office stated that a violation becomes known only if someone brings it to the office's attention, which rarely happens. Although the applicants certify that relocations will not occur, there is little incentive for applicants to turn away relocating businesses. The applicants are more interested in finding businesses to locate in their parks and to subsequently hire area residents than in what effect these relocations have on the areas where the businesses were previously located.

The following examples illustrate this point.

--EDA approved a grant for a new park project in January 1971. The project consisted of sewage and road improvements that would result in a 9-acre industrial park of which 8 acres would be suitable for industrial use. EDA accepted the project as complete and also disbursed funds in March 1972. A business relocated to the park from 365 miles away and occupied all 8 available acres in March 1971, which was 2 months after the project was approved and 12 months before the final disbursement of funds. Before the business relocated, it closed down its operation at the previous site and abolished 60 jobs.

--EDA approved a grant for a new park project in June 1970. The project consisted of water, sewage, and road improvements for an 83-acre industrial park. Although no final acceptance date was available, EDA made final disbursement on the project in February 1975. A business relocated into the park from about 140 miles away in December 1974, which was 2 months before final disbursement. The business transferred two employees and abolished five jobs.

--EDA approved a grant for a new park project in June 1966. The project consisted of water storage, treatment, and distribution for the park. A business relocated from about 650 miles away into the proposed park in October 1965, or about 9 months before EDA approved the project. Before the business relocated, it closed down its operation at the previous site, transferred 25 jobs to the park and 10 jobs to other sites, and abolished 300 jobs.

EDA needs to monitor businesses locating in its park projects so that situations like those cited above do not continue to occur. To have an effective non-relocation policy, we believe EDA cannot rely solely on the applicants' assurances, but instead must review all businesses planning to locate in the parks. We believe that this review can be accomplished through field visits to the park projects before final disbursement of EDA funds is made. For projects where final disbursements were made, the review can be combined with field visits made to monitor the parks' successes as discussed in chapter 4.

RELOCATIONS FROM WITHIN THE AREA PROVIDE FEW ADDITIONAL JOBS

The congressional intent behind the funding of public works projects is to make economically distressed areas attractive so that new businesses or business expansions will locate in these areas to create new jobs for area residents. Despite this intent, we found that 142, or about 37 percent, of the 383 businesses located in the parks reviewed were business relocations from within the area. Although EDA does not prohibit these businesses from relocating into its funded parks except when the relocations would result in a loss of existing jobs at the time of the relocation, many of these relocations had very little impact in providing additional jobs for the areas' residents.

We found that 26 businesses which relocated to parks from within the area had either the same number of or fewer employees at the park location than at their former sites. Twenty-eight other relocated businesses increased employment by an average of fewer than three employees. In addition, nine other businesses abolished jobs when they relocated and therefore should not have been allowed to relocate in the parks. In all instances, the above businesses did not save any jobs because the owners or managers stated, through discussions or questionnaire results, that they probably would have remained at their former sites or found new sites in the areas had the parks not been developed.

EDA's Deputy Assistant Secretary for Operations said that relocations from within the area are justifiable when they are needed to stabilize or improve the businesses, regardless of whether the relocations result in immediate additional jobs. We agree that some businesses relocating from within the area to the parks may be justified in doing so because they needed better facilities to operate more efficiently or expand operations or because they would have left the areas if the parks had not been constructed. But other relocations were unjustified because they would have stayed in the area and, in all likelihood, were not planning to expand operations but were merely relocating to more attractive sites. Some examples of businesses with unjustified relocations include

--Government agencies, such as the Department of Agriculture, and nonprofit groups, such as district planning organizations;

--labor union affiliates whose main purpose for relocating was to provide sufficient space for monthly meetings; and

--telephone service and soft drink bottling and distribution companies servicing the area.

Some applicants are accepting businesses relocating from within park areas which are not expanding their operations and which would probably have remained in the areas without the parks. Thus, some parks are not meeting their employment projections even though they are either substantially utilized or have attracted a substantial number of businesses. This situation is illustrated by the following examples.

--A park costing EDA $223,444 has been completed for about 5-1/2 years and has one business currently operating in it. This business occupies all 22 acres of the park land available for industrial use. However, the business is a relocation from

within the area, and when it moved it transferred 350 jobs to the park location and abolished 100 others. The business, in reply to our questionnaire, stated that it has about 400 employees in the park, 50 fewer employees than it had when it relocated. As a result, the park project did not meet its projection of creating an additional 61 jobs.

--A park costing EDA $294,335 has been completed for about 5 years and has eight businesses currently operating in it. These eight businesses occupy 29, or about 66 percent, of the 44 acres available for industrial use. However, all eight businesses are relocations from within the area, and they account for only 55 jobs created and none saved. The applicant, however, projected that 342 jobs would be saved and/or created at the time of park approval.

--A park costing EDA $249,225 has been completed for almost 6 years and has six businesses currently operating in it. These six businesses occupy 21, or about 46 percent, of the 46 acres available for industrial use. However, five of these businesses are relocations from within the area, and the other business was already located in the park before the park project was approved. These six businesses have accounted for only 71 jobs created and none saved, although the applicant projected 544 jobs would be saved and/or created at the time of park approval.

CONCLUSIONS

To effectively control business relocations in EDA-funded industrial parks, EDA must clearly administer the non-relocation policy and limit relocations from within park areas.

Since EDA applies the provisions of section 202(b)(1) of PWEDA to all its programs, including industrial park projects, it appears that all businesses planning to relocate to EDA-funded parks from other areas should be prohibited from doing so. EDA's administration of its non-relocation policy is unclear, and it seems that once EDA makes final disbursement on a project, it is no longer concerned with administering the non-relocation policy. EDA needs to administer the non-relocation policy so that all business relocations from other labor areas are clearly prohibited from entering

its parks. EDA field officials need to apply the policy consistently, and EDA applicants ought to be fully aware of how the policy is administered.

A primary purpose of funding industrial park projects is to provide distressed areas with the facilities to attract new businesses or business expansions, which in turn will create new job opportunities for area residents. Therefore, businesses relocating from within the areas should be limited since many of them are not expanding their operations and providing new job opportunities for area residents and do not result in jobs saved because, in all likelihood, the businesses would have remained in the areas whether or not EDA-funded parks were developed. Although EDA stated that relocations from within the park areas are justifiable, we believe that in many cases these business relocations are not justified.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

If EDA is to properly enforce its non-relocation policy and place emphasis on attracting new businesses or business expansions to create new job opportunities, we recommend that the Secretary of Commerce direct the Assistant Secretary for Economic Development to:

--Administer EDA's non-relocation policy to clearly prohibit businesses from other areas from relocating in EDA-funded parks.

--Issue instructions to EDA field staffs clearly stating how EDA will administer its non-relocation policy for industrial park projects and revise the EDA application form so that applicants are fully aware of how the policy is administered.

--Monitor the effectiveness of the non-relocation policy through periodic field visits to the parks. EDA should make these visits before final disbursement of funds and when determining the parks' successes.

--Develop criteria to minimize relocations from within park areas and emphasize to EDA applicants that park projects are designed to attract new businesses or business expansions to provide new employment opportunities rather than to be used to relocate existing area businesses into more attractive sites.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report, EDA agreed that its application of the non-relocation policy for industrial park projects needs to be clarified. However, EDA said that it does not know how long the prohibition should last for industrial parks. It said that it will continue to investigate the matter and, if necessary, revise its regulations. EDA also said that it plans to revise its public works application form to clarify the agency's policy on non-relocation and that all procedural statements would be revised for consistency.

We appreciate the concerns raised by EDA over the length of time the relocation prohibition should stay in effect for industrial park projects. However, it is our position that the non-relocation policy needs to be applied fairly and consistently to all businesses planning to relocate in EDA-funded parks and not just to the businesses which plan to relocate in the parks prior to the date EDA makes the final disbursement of funds on the projects. As a result, the non-relocation policy needs to remain in effect for as long as there is land available to be occupied by businesses in the parks.

In commenting on our recommendation to monitor the effectiveness of the non-relocation policy through periodic field visits to the parks, EDA said that:

> "It is not administratively possible for EDA to monitor the effectiveness of the non-relocation policy through periodic visits to every park project. Rather we believe we can improve the enforcement of the non-relocation policy through monitoring on a sample basis and looking into information brought to our attention on any other project. We will also define specific policies and actions to be taken for cases where relocations have occurred."

EDA also said that our report does not set a time limit on how long EDA should review businesses locating in the parks. It said that businesses could locate in the parks 30 and 40 years after the parks are constructed and that to review these businesses for non-relocation violations would be clearly unrealistic.

We appreciate EDA's concerns that it is not administratively possible to monitor the effectiveness of the non-relocation policy through periodic visits to all the park projects. We agree that the monitoring of the businesses

on a sample basis, if implemented properly, together with defining specific policies and actions to be taken for cases where relocations occur, will improve the enforcement of the non-relocation policy. We have reservations that the enforcement of the non-relocation policy will be improved by violations being brought to EDA's attention because, as discussed on page 25 of the report, indications are that this rarely happens.

Concerning EDA's comment that our report does not set a time limit on how long EDA should review businesses locating in the parks for relocation violations, we believe EDA is in the best position to develop criteria and set time frames. We believe EDA can develop methodologies to accomplish this through its newly designed Crosscut Evaluation System. This system is discussed in more detail on pages 42 and 43 of the report.

EDA disagreed with our recommendation that it should develop criteria to minimize relocations from within park areas and emphasize to its applicants that park projects are designed to attract new businesses or business expansions to provide new employment opportunities rather than to be used to relocate existing area businesses into more attractive sites. Although EDA agreed that the primary objective of industrial parks is to attract new and expanding businesses, it said that job retention is a significant part of local economic development strategies. The agency said it should not discourage retention of firms, where appropriate. It did not say what it meant by "where appropriate." EDA said it did not believe that the small number of firms which moved for no apparent business reason constitute a problem. EDA also said that:

> "* * * When a firm decides to move to another site in the same locality, it usually has bona fide reasons to do so. For example, it is likely to generate increased profits for the firm. These profits will provide economic benefits to the community by stimulating tax revenues and spin-off jobs. These secondary impacts, although not the primary objective for EDA projects are of importance. The movement of a firm could also leave vacant space for more marginal firms to locate in. Such space can be considered incubator space for small firms. In addition, the firms that relocate do not generally consume large amounts of space and may have a positive effect on the remaining space, by helping to attract other firms ot [sic] the park through the agglomeration effect."

As discussed in the report, bona fide job retention is important. However, we disagree with the agency's belief that there is no problem because only a small number of businesses are relocating from within the area for no apparent reason. We believe this problem is significant.

As discussed on page 27 of the report, our findings showed that of the 142 businesses which relocated from within the areas, 35 businesses either had the same number of or fewer employees at the park locations than at their former sites or abolished jobs at the time of the relocations, and 28 other businesses increased employment by an average of fewer than three employees. For these 63 businesses, which represents 44 percent of the 142 businesses which relocated from within the areas, no jobs were saved because the owners or managers stated that they would have definitely or probably remained at their former sites or found new sites in the areas had the parks not been developed. Our report also points out that because some applicants are allowing their parks to be filled by these businesses, the parks are not meeting the applicants' employment projections even though the parks have a substantial number of businesses operating in them.

We recognize that a policy that allows area businesses to locate in EDA-funded parks in those areas, regardless of the businesses' reasons for doing so, could result in increased profit for the businesses and secondary impact on the communities. However, such a policy does not meet the congressional intent behind the funding of public works projects and should not be used to infer that criteria are not needed to minimize relocations from within the areas. This is especially true when the park projects are being used to relocate existing area businesses into more attractive sites without saving existing or creating new jobs for area residents.

CHAPTER 4

IMPROVEMENTS ARE NEEDED TO EFFECTIVELY MONITOR AND ASSESS PARK PROJECTS

EDA has been funding industrial park projects since 1966; however, it has not systematically gathered, monitored, or evaluated project accomplishment data to judge the overall effectiveness of its park projects and to determine whether changes in project funding levels should be made. EDA has recognized this weakness and has designed a system to monitor the impact and assess the effectiveness of all its projects. While the system is a significant EDA initiative, refinements to it and other improvements are needed before EDA can judge the overall effectiveness of its industrial park projects.

First, the system is designed on a program-by-program basis rather than on a project-by-project basis. Because industrial park projects are unique in that they are designed to attract a number of businesses over a period of time, the system needs refinements to more effectively monitor and assess park projects. Second, only projects funded since fiscal year 1979 will be part of the system, and accomplishment data for these projects will not be available for several years. To effectively monitor and evaluate its park projects now, EDA needs to gather accomplishment data on projects funded in the past. It also needs to disseminate to appropriate regional offices previous industrial park evaluations that may be useful in approving future park projects.

EDA HAS DESIGNED A SYSTEM TO MONITOR AND EVALUATE PROJECT ACCOMPLISHMENTS

EDA has designed an Operational Planning and Control System (OPCS) to improve its ability to manage, monitor, and evaluate its programs. Since the system will not become fully operational until late 1980, we could not assess its performance. However, we did review documentation about the system and discussed its design and use with EDA officials.

EDA initiated development of OPCS in November 1977 at the direction of the Assistant Secretary for Economic Development. The system provides procedures and guidelines for defining agency goals, establishing program objectives, allocating agency resources, setting performance standards, monitoring program operations, and evaluating program results.

Under OPCS, specific criteria, objectives, and performance standards were established for each EDA program. According to the OPCS manual, these were developed based on past evaluation studies and staff experience in developing projects. For the public works program, a criterion was established that the cost to save or create a full-time permanent job should average $13,500 in obligated public works funds. With this criterion in mind, an objective was established to save or create a specific number of jobs in a given fiscal year. To attain that objective, a certain number of projects involving a specific level of funding would have to be approved. For example, if EDA wanted to save or create 10,000 full-time jobs under its public works program in a specific fiscal year, it would have to approve $135 million in public works projects (10,000 jobs x $13,500 = $135 million). According to the OPCS manual, the $13,500 figure will be adjusted annually to account for inflation.

In addition, criteria were established to facilitate the orderly progression of projects during a fiscal year. The criteria specify the percentage of a program's resources which, at the end of each quarter of a fiscal year, should be committed to projects in one of three stages--preapplication, processing, or approval. These percentages are more detailed objectives and will be used periodically to inform EDA management of how much has been accomplished, how much remains to be accomplished, and how much is in the pipeline. It will also allow for adjusting regional allocations based on actual funding opportunities.

Under OPCS, criteria were developed to evaluate employment projections made on applications, and time frames were set to achieve these projections. EDA plans to revise the criteria and standards in accordance with operating experience, changing policies and programs, and a changing economic development environment.

The criteria for evaluating employment projections under the public works program consider the time projected by the applicant to achieve its projected employment and also provide a way to convert part-time jobs to full-time equivalents. Largely because (1) long-term forecasting is less accurate than near-term forecasting and (2) applicants may be overly optimistic in projecting employment to elicit EDA funding, the following formula was established to discount applicant projections:

--Jobs to be saved by the firm(s) staying in operation are counted at 100 percent.

--Jobs projected to be created within 1 year after project approval and before project completion are counted at 90 percent.

--Jobs projected to be created within 2 years after project approval are counted at 80 percent.

--Jobs projected to be created within 5 years after project approval are counted at 50 percent.

--Jobs projected to be created after 5 years of project approval are counted at 25 percent.

--Jobs projected to be created on a long-term basis or sheer speculation are counted at 10 percent.

To realize these employment projections, the following time frames were established:

--5 percent of projected employment should be achieved in the fiscal year immediately following the year of approval.

--60 percent in the third fiscal year following the year of approval.

--100 percent in the seventh fiscal year following the year of approval.

EDA plans to use a combination of statistical and narrative reports to monitor and evaluate actual project performance. A business that would directly benefit from the project and that expected to save or create 15 or more permanent jobs would submit a report to EDA showing its current and projected employee and payroll data. The business would update the report and submit it to EDA annually for 5 additional years. These updated figures would then be entered into EDA's computerized information system so that project accomplishments on job and payroll data could be continually evaluated. Specific procedures and controls were developed to ensure that reported data is accurately entered into the information system.

EDA plans to verify reported employment as well as staff adherence to program operating procedures through regular reviews by agency staff and outside consultants. Results of these reviews are to be summarized in narrative form.

THE SYSTEM NEEDS REFINEMENTS

Although OPCS has a cost criterion for saving and creating jobs, time frames for realizing employment projections, and methods to measure actual employment accomplishments for its public works program, they are designed on a program-by-program basis. Because industrial park projects are unique in that they are designed to attract a number of businesses over a period of time, the system needs refinements to more effectively monitor and assess park projects. We believe that the cost criterion per job may be too high and too easily attainable, the time frames for realizing employment projections too short, and the means to measure actual employment accomplishments too limited.

Cost criterion per job

Under OPCS, a criterion was established that the cost to save or create a full-time permanent job under the public works program should average $13,500 in obligated public works funds. According to the OPCS manual, this criterion was based on past evaluation studies of public works projects and staff experience in developing projects. To arrive at a full-time equivalent job, the system plans to convert projected part-time employment by taking the average manufacturing wage for the area in which the businesses are located and dividing it into the aggregate wages projected to be paid to these employees.

Based on our review and prior EDA studies, 1/ the $13,500 figure may be too high for industrial park projects. Our review showed an average cost per job of $1,528. (See app. I.) A 1970 EDA study showed an average cost per job of $1,434, and another EDA study conducted in 1973 showed an average cost per job of between $3,782 and $6,748. Our job figures and those of the 1970 EDA study are on the low side because they do not consider full-time equivalent jobs, other EDA investments such as business development loans to businesses located in the parks, and adjustments for inflation. However, the figures developed in the 1973 EDA study

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1/"The EDA Industrial Park Program, An Analysis of Its Impact," July 1970, p. 11, and "Industrial Parks Funded by the Economic Development Administration," April 1973, pp. 71-72, U.S. Department of Commerce, EDA, Office of Administration and Program Analysis.

may be more realistic since they do consider other EDA investments in the parks.

A major reason why industrial park projects should have a lower job-cost ratio is that they are designed with the anticipation that a number of businesses will eventually locate in the parks. As more businesses locate in the parks, more jobs are created, which will lower the overall cost per job for the projects. This situation is in contrast to some other public works projects, such as recreational and tourism facilities, skill-training centers, and health centers, which are designed to provide direct job opportunities for those persons who are working at these facilities.

For example, a $600,000 public works project to construct a 100-acre industrial park may be approved because one business with 50 employees wants to locate on 5 acres of the park. The project is approved because it will result in a cost per job of $12,000 ($600,000 divided by 50 = $12,000). However, 2 years after the project is complete, a second business locates on an additional 5 acres of the park and employs an additional 50 people. As a result, 100 people are now working in the park and the job-cost ratio is reduced to $6,000 ($600,000 divided by 100 = $6,000). In contrast, a $300,000 public works project to construct a recreational facility may be approved because it will provide 25 jobs. The project is approved because it will result in a cost per job of $12,000 ($300,000 divided by 25 = $12,000). Two years after the project is complete, the recreational facility should still have about 25 employees and the job-cost ratio will remain at $12,000.

Because industrial park projects offer the potential to create more jobs as more businesses move in, thus reducing the job-cost ratio, the criterion to determine the cost of saving or creating a job for park projects needs to be reduced.

Since industrial park projects are designed with the anticipation that a number of businesses will eventually locate in the parks, EDA also needs to develop a criterion for park utilization. We believe that job data and park utilization rates are a better measure of success than job data alone. Going back to the above example, although the job cost ratio was $6,000, the park was only 10 percent utilized (100 acres divided by 10 acres = 10 percent), which means that the park still can accommodate additional businesses. Although the above example is hypothetical, we believe that it illustrates the major reason why many of the parks in our review had low job-cost ratios, yet had low utilization rates. (See app. I.)

Time frames for realizing employment projections

Under OPCS, 100 percent of the job projections for public works projects should be realized in the seventh fiscal year following the year the project was approved. This time frame may be too short for industrial park projects. Based on our review, 79, or about 21 percent, of the 383 businesses did not locate in the parks until some time after the seventh year following the year of approval. If this trend continues, a number of projects may be considered unsuccessful because their job projections would not be met within the OPCS time frames, when, in fact, the projects at a later date could be successful in realizing their employment projections. This possibility is illustrated by the following examples.

--A park project was approved in June 1966; it was anticipated that the project would create 170 jobs. In June 1973, 7 years after the year of approval, the park was vacant and therefore no jobs had been created. However, one business located in the park in 1975 and two others located in the park in 1978. As a result, at the time of our review, these three businesses had created 188 jobs, or 18 more than originally anticipated.

--A park project was approved in June 1970; it was anticipated that the project would create 124 jobs. In June 1977, 7 years after the year of approval, four businesses were located in the park and, based on employment remaining constant, had created 59 jobs, or 65 fewer than anticipated. However, three additional businesses located in the park after June 1977 and, at the time of our review, the seven businesses in the park had created 164 jobs, or 40 more than anticipated.

Since public works projects take an average of about 2 years to complete after approval, and since most businesses do not locate in industrial parks until the parks are completed (see next page), we believe that a more realistic time frame would be from park completion date rather than from approval date. Although we do not know precisely how long it should take to realize job projections, we were told that park projects should have become fully utilized about 8 to 12 years after they have been completed. A 10-year period after the completion date should be sufficient to realize employment projections.

Measuring actual job accomplishments

EDA plans to measure actual job accomplishments by requiring businesses that directly benefit from the project to submit periodic reports on their employment data. The report (ED-612) is a detailed schedule showing current and projected employment and payroll data. However, for industrial park projects this report would be required only for businesses that intended, at the time of final disbursement of funds, to locate in the park. Businesses that plan to or actually do locate after disbursement of funds would not be required to submit this report. Since our review showed that most businesses locate in the parks after the final disbursement of funds, EDA will receive actual employment data from a limited number of businesses.

Our review showed that only 141, or 38 percent, of the 375 businesses for which we could determine the final disbursement date 1/ located in the parks before final disbursement of funds. We also noted that in 25 of the parks reviewed, all the businesses had located in these parks after final disbursement of funds. If this same trend continues, the reports will not be a very effective tool to monitor actual employment data for park projects.

We believe that if EDA intends to use this report to monitor actual employment data for businesses located in its industrial parks, it will have to require that all businesses submit the report. If this approach is not feasible, EDA ought to periodically contact the businesses, either through site visits, by telephone, or through its applicants, to effectively monitor actual employment data for all of them.

ACCOMPLISHMENT DATA NEEDS TO BE GATHERED ON PROJECTS FUNDED IN THE PAST

EDA has not systematically monitored or evaluated industrial park projects in the past. Although it plans to accomplish monitoring and evaluation through OPCS for projects approved since fiscal year 1979, industrial park projects are long-term investments and accomplishment data realized will not be available for analysis for several years. For EDA to effectively monitor and evaluate its park projects now, and to effectively implement the management assistance program

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1/We could not ascertain the final disbursement date for one park that had eight businesses.

called for in chapter 2, it needs to gather accomplishment data on park projects funded in the past. Also, evaluations of parks funded in the past can be used to revise the criteria and performance standards developed for OPCS.

Our review showed that for 74 parks for which we could determine park applicant contacts with EDA, 37 applicants, or 50 percent, stated that they have not been in contact with an EDA official even though these projects have been completed and in operation for an average of about 7 years. EDA headquarters and regional office officials said that they have been unable to monitor park projects adequately because travel fund limitations and staff shortages have required placing emphasis on processing new applications and assuring that construction specifications are met for park projects under construction. Regional office officials believe that the inability to properly monitor park accomplishment data is a significant weakness in administering park projects.

As noted earlier, EDA, through its Office of Management and Administration staff, has evaluated its industrial park projects in the past. 1/ These studies, which were evaluations of between 72 and 155 park projects, generally concluded that EDA parks have been successful in attracting new businesses and creating jobs for area residents. The 1973 and 1974 studies also concluded that EDA park projects could be more successful. The studies recommended that EDA be more selective about where it funds future projects and that it get more involved in helping existing parks attract new businesses. As stated in chapter 2, these recommendations were generally not implemented. In addition, regional office officials who are responsible for public works projects stated that they were unaware of these studies. They said that these evaluations would be very useful when considering the funding of future park projects.

As discussed in chapter 2 and shown in appendix I, many projects in our review had problems: some have remained vacant for a long period of time, others have not met their job projections, and others are vastly underutilized. Without systematically gathering accomplishment data on these and other projects funded in the past, projects cannot be monitored and evaluated. As a result, projects having problems will continue to go undetected and corrective actions, such as providing management assistance, cannot be properly implemented.

1/See pp. 13 and 14 and footnote on p. 36.

We recognize that gathering project accomplishment data will place an additional burden on EDA's limited staff resources. To soften this burden, EDA should identify the types of accomplishment data needed to properly monitor and evaluate its parks and request that park applicants periodically submit this data to the appropriate regional offices.

EDA also needs to disseminate previous studies on its park projects to its regional offices. This dissemination is particularly important because the accomplishment data developed in these studies is the only information available to regional offices when they consider funding future park projects.

CONCLUSIONS

EDA has not systematically gathered, monitored, or evaluated industrial park accomplishment data in the past. EDA has recognized this weakness and has designed a system to monitor and evaluate all projects, including industrial parks. As part of the system, EDA has established a cost per job criterion to determine how many jobs should be saved or created from its investments. The system also includes time frames for realizing employment projections. EDA also plans to measure whether employment projections have been met by requiring businesses that directly benefit from its projects to submit periodic employment reports.

However, because the system is designed on a program-by-program basis and because industrial park projects are unique, the (1) cost per job criterion may be too high and too easily attainable to be a realistic measure of project success, (2) time frames are too short for realizing employment projections, and (3) number of businesses required to submit employment reports is too limited to effectively measure actual employment data for park projects.

OPCS, while a major initiative, will not give EDA complete park project accomplishment data for several years. To effectively monitor and evaluate its park projects now and to effectively implement the management assistance program called for earlier in the report, EDA needs to gather accomplishment data on park projects funded in the past. Past project accomplishment data can also be used to revise OPCS.

EDA also needs to disseminate previous studies on its park projects to appropriate regional offices since the accomplishment data developed in these studies is the only information available to regional offices when they consider funding future park projects.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

To more effectively monitor the impact and assess the performance of industrial park projects funded in the past and in the future, we recommend that the Secretary of Commerce direct the Assistant Secretary for Economic Development to:

--Refine the Operational Planning and Control System. These refinements should include (1) reducing the cost per job criterion if actual results show the criterion is too high, (2) developing and using criteria on park utilization rates along with the cost per job criterion to measure park success, (3) revising the time frames for realizing employment projections from 7 years after the year of approval to 10 years after park completion, and (4) requiring that actual employment data be received from all businesses in the parks.

--Identify and gather accomplishment data needed to properly monitor and evaluate park projects not covered by the Operational Planning and Control System. To preserve limited staff resources, EDA should request that park applicants periodically submit this data to the appropriate regional offices.

--Disseminate previous studies on park projects to appropriate regional offices for their use when considering the funding of future projects.

AGENCY COMMENTS AND OUR EVALUATION

The agency agreed that it will need to refine its OPCS. It said that this will be accomplished as a result of the Crosscut Evaluation System (CES) which the agency initiated in 1979. The agency said that the CES will include post-approval evaluations, on a stratified sampling basis, of project accomplishment data which will be fed into the CPCS to update and refine the provisional standards contained in the OPCS final report, such as the cost per job criterion and the time frames for realizing employment projections. The agency also said that developing and using criteria on park utilization rates would be useful. The agency disagreed that actual employment data should be received from all businesses that locate in its parks. EDA said that the CES will provide it with sufficient information to adequately assess the success of industrial park projects.

It appears that the establishment of the CES should provide the agency with enough project accomplishment data so that refinements to the OPCS can be made to more effectively monitor and assess park projects. However, because the operational framework for carrying out the CES has not been completely developed and implemented, we could not assess its performance. Specific areas which have yet to be addressed include (1) the types of accomplishment data needed to evaluate projects, (2) how the accomplishment data will be obtained, and (3) the sample size and techniques used to select the projects to be included in the sample. Because industrial park projects are unique as compared to some other public works projects in that they are designed to attract a number of businesses over a period of time, we believe that special attention needs to be given to these projects in the agency's deliberations on developing and implementing the operational framework for carrying out the CES.

In its comments, EDA said we misused the $13,500 figure throughout the chapter in that we failed to recognize the figure as an average cost per job. It was our intention to recognize the figure as an average and we have revised the report to clarify this.

In commenting on our recommendation to identify and gather accomplishment data needed to properly monitor and evaluate park projects not covered by the OPCS, the agency agreed that there is a need to monitor such accomplishment data. However, EDA said it would consider utilizing local organizations, such as economic development districts, to monitor these projects for EDA rather than to request applicants to submit project accomplishment data to the appropriate regional offices. The agency said that, in addition to staffing restrictions, there are strict Office of Management and Budget restrictions on increasing the public's reporting burden and also that it would find it difficult to require reports from applicants throughout the life of the projects.

We appreciate the concerns raised by EDA and believe the use of economic development districts to monitor applicant accomplishment data may be beneficial. Nevertheless, in view of the fact that many of the industrial park projects are having problems in attracting businesses, we believe EDA needs to closely monitor its projects so that problem projects can be identified and corrective actions taken. Therefore, we believe our recommendation is warranted.

EDA agreed with our recommendation to disseminate previous studies on its park projects to the appropriate regional offices for their use when considering the funding of future projects.

COMPARISON OF PROJECTED VS. ACTUAL EMPLOYMENT DATA, JOB COST DATA, AND UTILIZATION OF PARKS

Park number	Job data				Utilization data				
	EDA cost	Number of jobs projected	Actual jobs saved or created	Number of jobs over or under (-)	EDA cost per job	Acres suitable for industrial use	Acres used by businesses in operation	Utilization rate (percent)	Number of businesses in park	Number of months since park completion at time data collected
Parks with projected job data										
1	$ 85,800	760	230	-530	$ 373	53	53	100	1	95
2	138,000	350	26	-324	5,308	44	3	7	2	37
3	532,000	121	47	-74	11,319	84	14	17	3	41
4	343,500	600	141	-459	2,436	224	34	15	7	53
5	884,662	1,148	1,788	640	495	95	60	63	1	66
6	327,000	349	0	-349	-	20	0	0	0	61
7	264,000	336	14	-322	18,857	32	4	13	1	69
8	167,700	639	40	-599	4,193	54	34	63	1	47
9	88,500	315	375	60	236	53	53	100	1	139
10	180,600	426	70	-356	2,580	32	18	56	2	36
11	149,304	800	400	-400	373	50	50	100	1	89
12	175,676	50	257	207	684	250	75	30	5	133
13	187,273	250	5	-245	37,455	45	33	73	1	60
14	119,925	63	-10	-73	-	27	11	41	7	58
15	643,200	249	163	-86	3,946	35	27	77	8	36
16	118,400	60	0	-60	-	37	0	0	0	40
17	78,000	65	173	108	451	23	22	96	6	135
18	252,200	125	27	-98	9,341	24	10	42	2	44
19	228,740	80	199	119	1,149	40	12	30	3	45
20	538,000	220	357	137	1,507	50	24	48	3	80
21	1,485,829	500	125	-375	11,887	93	46	49	9	47
22	267,200	93	20	-73	13,360	60	9	15	1	37
23	412,100	168	510	342	808	115	52	45	17	109
24	1,231,800	326	221	-105	5,574	153	80	52	29	55
25	294,335	342	55	-287	5,164	44	29	66	8	61
26	393,200	1,800	540	-1,260	728	120	59	49	14	102
27	103,544	350	412	62	251	149	102	68	8	148
28	223,444	61	-50	-111	-	22	22	100	1	65

APPENDIX I

Park number	Job data: EDA cost	Job data: Number of jobs projected	Job data: Actual jobs saved or created	Job data: Number of jobs over or under (-)	Job data: EDA cost per job	Utilization data: Acres suitable for industrial use	Utilization data: Acres used by businesses in operation	Utilization data: Utilization rate (percent)	Utilization data: Number of businesses in park	Utilization data: Number of months since park completion at time data collected
Parks with projected job data										
29	$ 453,600	126	350	224	$ 1,296	12	12	100	1	56
30	201,600	1,720	50	-1,670	4,032	180	34	19	6	49
31	238,760	428	50	-378	4,775	33	16	48	2	75
32	469,200	240	323	83	1,453	92	14	15	4	52
33	122,042	100	741	641	165	83	30	36	2	100
34	1,118,400	379	104	-275	10,754	115	5	4	1	102
35	114,000	365	272	-93	419	10	10	100	1	91
36	374,105	341	299	-42	1,251	55	55	100	1	142
37	68,465	350	83	-267	825	35	28	80	4	146
38	409,600	40	70	30	5,851	10	4	40	1	57
39	652,000	247	274	27	2,380	149	82	55	5	99
40	[illegible]	75	-101	-176	-	210	104	50	6	51
41	681,400	150	1,480	1,330	460	185	148	80	11	111
42	952,480	441	159	-282	5,990	93	18	19	2	41
43	199,000	1,600	1,191	-409	167	181	94	52	7	152
44	279,500	50	443	393	631	50	50	100	1	126
45	273,000	170	188	18	1,452	50	22	44	3	135
46	36,542	600	800	200	46	133	92	69	1	121
47	48,553	746	157	-589	309	180	19	11	3	69
48	119,000	51	446	395	267	42	38	90	3	65
49	192,000	212	361	149	532	15	15	100	1	73
50	136,200	177	84	-93	1,621	52	10	19	1	69
51	2,929,000	1,600	1,222	-378	2,397	1,317	1,254	98	2	99
52	342,786	262	306	44	1,120	106	47	44	4	86
53	66,232	50	168	118	394	15	15	100	1	150
54	892,754	384	271	-113	3,294	253	91	36	9	81
55	379,027	124	164	40	2,311	70	28	40	7	58

APPENDIX I

Park Number	Job data: EDA cost	Job data: Number of jobs projected	Job data: Actual jobs saved or created	Job data: Number of jobs over or under (-)	Job data: EDA cost per job	Utilization data: Acres suitable for industrial use	Utilization data: Acres used by businesses in operation	Utilization data: Utilization rate (percent)	Utilization data: Number of businesses in park	Number of months since park completion at time data collected
Parks with projected job data										
56	$ 465,000	108	206	98	$ 2,257	113	37	33	11	111
57	249,225	544	71	-473	3,510	46	21	46	6	69
58	118,400	40	22	-18	5,382	25	25	100	3	82
59	466,800	101	26	-75	17,954	100	7	7	2	90
60	820,800	240	271	31	3,029	375	55	15	10	81
61	261,000	226	115	-111	2,270	20	20	100	1	45
62	31,500	200	27	-173	1,167	8	8	100	1	93
63	312,547	550	24	-526	13,023	155	4	3	1	47
64	75,000	92	3	-89	25,000	80	3	4	1	68
65	700,000	1,585	1,090	-495	642	628	162	26	4	38
66	159,600	57	186	129	858	65	37	57	3	49
67	357,000	475	60	-415	5,950	135	14	10	2	82
68	961,100	300	34	-266	28,268	177	12	7	2	48
69	56,498	450	0	-450	-	10	0	0	0	125
70	328,525	36	0	-36	-	182	0	0	0	58
71	261,886	146	0	-146	-	110	0	0	0	74
72	103,379	85	0	-85	-	120	0	0	0	126
73	215,235	15	0	-15	-	42	0	0	0	47
74	66,488	24	0	-24	-	25	0	0	0	128
Total	$20,161,561	26,948	18,225	-8,723	a/ $ 1,545	10,170	5,676	a/ 56	281	

a/This figure is an average.

APPENDIX I

Park Number	Job data: EDA cost	Job data: Number of jobs projected	Job data: Actual jobs saved or created	Job data: Number of jobs over or under (-)	Job data: EDA cost per job	Utilization data: Acres suitable for industrial use	Utilization data: Acres used by businesses in operation	Utilization data: Utilization rate (percent)	Utilization data: Number of businesses in park	Number of months since park completion at time data collected
Parks with no projected job data										
75	$ 384,000		0		$ ---	50	0	0	0	42
76	45,910		108		425	15	9	60	1	48
77	734,400		50		14,688	153	17	11	8	40
78	1,139,943		92		12,390	300	51	17	5	40
79	475,644		1,336		356	180	73	41	13	53
80	210,900		71		2,970	85	20	24	1	53
81	371,081		922		402	78	78	100	7	148
82	969,234		94		10,311	119	11	9	2	44
83	84,559		36		2,348	140	91	65	6	93
84	182,500		0		---	192	0	0	0	116
85	194,880		56		3,480	165	38	23	2	81
86	358,099		2,387		150	1,350	1,058	78	5	161
87	401,000		828		484	199	83	42	5	90
88	62,000		199		312	50	35	70	3	126
89	468,000		20		23,400	81	12	15	1	56
90	80,600		202		399	345	101	29	4	51
91	70,668		90		785	42	23	55	1	115
92	4,669,454		470		9,935	114	56	49	7	63
93	234,500		551		425	138	95	69	2	54
94	323,638		6		53,940	53	7	13	3	59
95	578,400		194		2,981	75	68	91	10	69
96	255,920		22		11,633	9	1	11	2	51
97	167,000		14		11,929	46	3	7	1	64
98	82,470		576		143	115	98	85	3	116
99	323,295		54		5,987	44	29	66	5	49
100	155,200		207		750	18	3	17	1	56
101	197,094		262		752	240	43	18	4	71
Total	$13,220,389		8,847		a/ $ 1,494	4,396	2,103	a/ 48	102	
Total	$41,381,950		27,072		a/ $ 1,528	14,566	7,779	a/ 53	383	

a/This figure is an average.

APPENDIX I

SAMPLE SELECTION AND QUESTIONNAIRE METHODOLOGY AND RESULTS

SAMPLE SELECTION

The Economic Development Administration gave us a listing of all industrial park projects funded under the public works program as of September 22, 1978. From this list, which totaled 937 projects, we eliminated from potential review projects funded in Puerto Rico, on Indian reservations, projects completed after June 30, 1976, and projects funded under the Public Works Impact Program.

Projects in Puerto Rico and on Indian reservations were eliminated because we believe that they are not representative in that projects funded in Puerto Rico were all funded to the same applicant and projects funded on Indian reservations are administered by a separate staff. Projects completed after June 30, 1976, were eliminated because they were not in operation long enough to fairly judge their effectiveness in attracting businesses and creating jobs. Public Works Impact Program projects were eliminated because their main purpose is to provide temporary rather than permanent employment. After eliminating these projects, our potential universe for review was reduced to 476 projects.

From the 476 projects, we selected 26 projects to visit and tried to determine the effectiveness of 150 of the remaining 450 projects through a random sampling of parks to determine their effectiveness in attracting businesses and saving or creating jobs.

QUESTIONNAIRE METHODOLOGY

Questionnaires were developed for park applicants and park businesses. We first sent questionnaires to park applicants asking them to verify that their projects were industrial parks and, if so, to complete the questionnaires, including giving us the names, addresses, and telephone numbers of each business located in the parks. If an applicant stated that a project was an industrial park, a second questionnaire was sent to each business located in the park. In a number of cases, telephone calls were made to both the applicants and businesses to clarify questionnaire responses.

QUESTIONNAIRE RESULTS

We sent questionnaires to 150 park applicants located throughout the United States and we received 140 responses. Forty-six respondents said that the EDA project was not an industrial park, and six other applicant responses had to be deleted from the sample because of special situations. 1/ For the remaining 88 park projects (140 - 52 = 88), we sent questionnaires to the 380 businesses in these parks and received 358 responses. Based on the business responses, we received complete responses from all businesses in 75 of the 88 park projects. We eliminated the remaining 13 park projects from our sample because we could not get all the businesses in these parks to respond to our questionnaire.

1/The six special situations included two cases where the parks were not completed by June 30, 1976; two cases where the applicants stated that no EDA funds were involved in the construction of the parks; one case where the applicant did not want us to send the businesses in the park a questionniare; and one case where the applicant stated that 401 businesses were located in the park, and it would be impracticable to send all 401 businesses a questionnaire and expect a 100 percent response.

APPENDIX III

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

SEP 16 1980

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of August 12, 1980 requesting comments on the draft report entitled "Economic Development Administration's Management Of Its Industrial Park Projects Can Be Improved."

We have reviewed the enclosed comments of the Assistant Secretary for Economic Development and believe they are responsive to the matters discussed in the report.

Sincerely,

Mary P. Bass

Mary P. Bass
Inspector General

Enclosure

APPENDIX III

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

SEP 15 1980

Mr. Henry Eschwege
Director
Community and Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Thank you for the opportunity to comment on the General Accounting Office (GAO) draft report entitled "Economic Development Administration's Management of Its Industrial Park Projects." We were generally pleased with the results of this survey. The job/cost ratio and occupancy rates of the industrial parks have shown EDA's investments to be fairly successful. The survey indicates an average cost per job of $1,528 and an occupancy rate of 53 percent.

The report has raised thought-provoking issues, many of which have not been reviewed for several years. It has stimulated significant discussions within the Economic Development Administration (EDA) and will ultimately result in a clarification of some of our policies regarding industrial park projects. You will note from our comments, however, that we do not always agree with the recommendations that are proposed as solutions to the problems raised in the report. Rather, we agree that some problems exist, but believe that in several cases alternative solutions would be more workable. The problem with the recommendations in the report is that they tend to ignore administrative and funding restrictions which make their implementation virtually impossible. Furthermore, there are cases where the recommendations are based on a misunderstanding of EDA policy and procedures.

The comments provided are arranged by the sections of the report. They include policy clarifications, general criticisms and responses to each of the recommendations of the report.

Chapter 1 - Introduction

Industrial Park Projects

The last sentence of the third paragraph on page 3 states that grant funds cannot be used to buy land. That statement was correct for the time period the report covers. However, it should be noted that the policy restricting land acquisition has been eliminated. EDA recently revised its regulations to allow the acquisition of land with Public Works funds.

[GAO Note: This reference has been deleted from the report.]

NOTE: Page numbers have been changed to agree with the final report.

Chapter 2 - Need to Better Assess Proposed Projects and Establish a Management Assistance Program

The report indicates that a substantial part of the sample of projects failed to meet the original job projections. EDA agrees that the job estimates made during the time period of the study were optimistically inflated and not based on a sound methodology. Consequently, we believe that conclusions drawn from the disparity between actual and estimated jobs created are of little importance. (It is interesting to note that the job cost ratio of projects with job estimates and projects without job estimates is virtually the same.) Further, as is mentioned in the report, EDA has attempted in recent years to refine its ability to estimate the job impacts of projects and continues to do so.

Need to Better Assess Proposed Projects

The last paragraph on page 6 indicates that EDA Public Works staff utilized feasibility studies for technical reviews. It should be made clear that the Public Works engineers were responding to technical, not economic, feasibility studies. Furthermore, the 1968 guidelines mentioned were designed for the Technical Assistance staff's review of any EDA-funded economic feasibility studies, and we not applied to all industrial park projects. We do, however, agree that the 1968 guidelines can be modified to be useful for reviews of all potential industrial park projects.

EDA has recognized it funded park projects near other parks

The report, on page 11, indicates that funding a project based upon a commitment from a business may cause excess capacity. Until recently EDA could not fund a project for a single user. Consequently, industrial land was developed in addition to what was needed by the firm locating in the park. This practice is no longer followed because the single-user restriction was recently deleted from our regulations.

The conclusion reached on page 11 regarding the funding of industrial park projects in areas with excess capacity seems to be based on a sample of two. We do not believe that a conclusive judgment should be made on such a small sample. It is EDA's judgment that the "25-mile" requirement has had a positive effect. We will continue to emphasize the policies defined in the 1977 memorandums which are referenced in the report. These policies will be incorporated into an EDA Directive.

EDA does have capabilities to identify and attract businesses to its industrial parks

The report on page 16 proposes that EDA's Industrial Location Service (ILS) be utilized to assist grantees in attracting businesses to industrial parks. EDA is in the process of

analyzing the effectiveness and the future use of the ILS System. So far, the analysis has indicated that if the ILS System is continued it would require significant updating and improvement. Our analysis has indicated the following problems, among others:

- o it may not accurately reflect the present business environment as it is based on the 1971 census;
- o the methodology is unclear and would have to be refined;
- o the size of the original sample was too small; and
- o critical locational factors were omitted.

These problems make the system in its present state unusable.

The suggestion, on page 16, to hire EDA industrial location specialists with Technical Assistance (T.A.) funds is not legally possible since EDA cannot hire its own personnel with T.A. money. While T.A. funds could be used to contract with a firm to provide industrial location services to EDA grantees, we do not agree with this approach. In addition to the fact that there are already excessive demands on our limited T.A. funds, we believe it is more appropriate for local resources to be used for industrial location efforts. As further discussed below, EDA should make sure that its industrial park applicants have plans to carry out such efforts.

Recommendations

The recommendations made in Chapter 2 seem to assume that the industrial parks funded by EDA should be treated as Federal property. We would agree that EDA should be concerned about the success of our investments. However, we disagree with the idea that these industrial parks are Federal domains. EDA does not provide 100 percent of the funds for an industrial park development. A substantial amount of the funds are provided by the localities. EDA therefore considers that the industrial parks are local facilities and that we cannot superimpose our will upon the grantees.

Require applicants to perform feasibility studies on all proposed industrial park projects. These studies need to include an assessment of whether the project is needed and whether it is favorably located to attract businesses.

In certain cases a feasibility study may be necessary in order to make a judgment about the viability of an industrial park. However, we believe that an applicant can provide sufficient information to EDA, without the aid of an "official" feasibility study, in order for EDA to make a feasibility decision.

Furthermore, whenever feasibility studies are performed by an applicant, they invariably prove the development feasible. EDA's feasibility review would be more critical than the requirement for a feasibility study. Therefore, we believe that EDA needs to obtain sufficient information from the applicant to make a feasibility review and we need to train EDA's existing staff to assure that professional decisions can be made. A requirement that all applicants perform feasibility studies would not lead to more successful projects.

Establish a management assistance program to help applicants that have problems attracting businesses to locate in their industrial parks. After this program is established, the Industrial Location Service should be used to determine the types of businesses that would be best suited to locate in the parks, and the recommendations made by the Office of Management and Administration on management assistance efforts should be adopted.

It should be remembered that EDA-funded industrial parks are located in the most economically distressed areas of the country. A management assistance program would not be the panacea for EDA's industrial parks. Industrial parks are necessary, but not sufficient to attract industry to an area. Location decisions are based on a wide variety of factors. Localities must, therefore, consider industrial parks within the context of their entire economic development process. For example, studies have shown that amenities provided by a community may be as important as the transportation linkages in an area. Consequently, although management capacity is important it should not be considered the ultimate solution to attracting industry to economically distressed areas.

The Management Assistance program suggested in the report would necessitate significant direct Federal intervention in the local development process. The report suggests that EDA become directly involved in the location of industries. We do not believe that is an appropriate role for the Federal government. The analogy to the Indian Industrial Development Office does not hold. The special nature of development problems on Indian reservations as well as the small number of EDA projects distinguishes them from EDA's other industrial park developments.

As stated above, we do agree that management capacity is necessary at the local level. However, we believe that it can be accomplished through other means than direct Federal intervention in the market. It is essential that EDA consider the management and marketing capacity of applicants when funding an industrial park. When staffing EDA Regional Offices we will look for people with background in industrial location and marketing along with other economic development skills.

However, we cannot afford the luxury of full-time industrial location specialists. Rather, the management capacity of existing grantees should be analyzed and improved and the resources of existing State and regional organizations should be used. Further, EDA will continue to encourage and provide funding for public interest groups to train, through conferences and workshops, local officials who operate or plan to operate industrial parks. We also will continue to encourage Economic Development District organizations to provide localities with their expertise. These methods will achieve the ultimate end described in the report, with the added benefit of increasing the economic development capacity at the local level.

As mentioned above, EDA is looking into the effectiveness of the Industrial Location Service. We will consider the GAO recommendation in making a decision regarding its future.

In addition to the above recommendations, past evaluations have suggested that there is a need for more coordination between EDA's programs and that preferential treatment be given to firms locating in EDA funded parks. We agree that coordination is necessary and have been attempting to achieve that coordination. It admittedly has not been totally successful. In addition, businesses that agree to locate in EDA-funded industrial parks should be given priority for Development Finance assistance as long as the firms meet the other selection criteria of that program.

The evaluators' suggestion for increased coordination between the Agency and the Small Business Administration (SBA) is also well taken. However, the coordination should be at the local level. Districts and grantees should develop a relationship with the SBA offices.

Lastly, the evaluators confirm our opinion that a key to success of industrial parks is the effectiveness of local jurisdictions, e.g., the Economic Development Districts and the States.

Require that its Regional Offices prepare periodic reports identifying vacant and low-utilized parks and develop possible solutions to attract businesses to these parks. The reports should also assess the applicants' marketing and promotion plans and their progress in attracting businesses to the parks.

We agree that periodic reports on the utilization of industrial parks would be useful and we will initiate action to require them. Further, we believe that the Economic Development Districts should be involved in the reporting process. It should be noted that other Regional Offices, in addition to the Southeast Regional Office, have been collecting this information. However, we do not agree that

EDA itself should utilize the information to develop solutions to attract businesses. Rather, EDA should review this information with the Economic Development Districts and other appropriate organizations to determine what assistance they can provide to the localities involved. EDA can utilize the information to appraise the management capacity of an area to determine what its future needs and problems are.

Chapter 3 - Need to More Effectively Control Business Relocations

Lack of adherence by applicants to non-relocation Policy

The suggestion on page 26, that EDA review all businesses planning to locate in industrial parks is unworkable and contradicts the OMB direction for agencies to accept assurances from grantees. Furthermore, the Report does not set a time limit. Does the GAO expect EDA to review all businesses that locate in industrial parks for the life of the project, e.g., 30-40 years? Clearly that is unrealistic.

Relocations From Within the Area Provide Few Additional Jobs

An objective of the Public Works program is job retention. It is a key to the economic stabilization and revitalization of many distressed areas.

We do not believe that the relocation of firms already existing within the area to an industrial park is a major problem. When a firm decides to move to another site in the same locality, it usually has bona fide reasons to do so. For example, it is likely to generate increased profits for the firm. These profits will provide economic benefits to the community by stimulating tax revenues and spin-off jobs. These secondary impacts, although not the primary objective for EDA projects are of importance. The movement of a firm could also leave vacant space for more marginal firms to locate in. Such space can be considered incubator space for small firms. In addition, the firms that relocate do not generally consume large amounts of space and may have a positive effect on the remaining space, by helping to attract other firms ot the park through the agglomeration effect.

Recommendations

Administer EDA's non-relocation policy so it is clear that all business relocations from other areas are prohibited from relocating in EDA-funded parks.

We agree that the application of the non-relocation policy for industrial park projects needs to be clarified. The question that is raised, however, is how long the relocation prohibition should last for industrial parks. We will continue to investigate this issue and, if necessary, revise our regulations.

Issue instructions to EDA field staffs clearly stating how EDA's non-relocation policy for industrial park projects is to be administered and revise the EDA application form so applicants are fully aware of how the policy is administered.

We also plan to revise the Public Works application to clarify EDA's policy on non-relocation. All procedural statements will be revised for consistency.

Monitor the effectiveness of the non-relocation policy through periodic field visits to the parks. These visits should take place before final disbursement of funds and when determining the parks' successes.

It is not administratively possible for EDA to monitor the effectiveness of the non-relocation policy through periodic visits to every park project. Rather we believe we can improve the enforcement of the non-relocation policy through monitoring on a sample basis and looking into information brought to our attention on any other project. We will also define specific policies and actions to be taken for cases where relocations have occurred.

Develop criteria to minimize relocations from within park areas and emphasize to EDA applicants that park projects are designed to attract new businesses or business expansions to provide new employment opportunities rather than to be used as vehicles to relocate existing area businesses into more attractive sites.

We agree that the primary objective of industrial parks is to attract new and expanding businesses. However, job retention is a significant part of local economic development strategies. We do not believe that we should discourage retention of firms, where appropriate. We do not believe that the small number of firms which moved for no apparent business reason constitute a problem.

Chapter 4 - Improvements Are Needed To Effectively Monitor and Assess Park Projects

The GAO report fails to properly recognize the role of post-approval evaluations which gather data on the actual accomplishments of projects on a sample basis and feed it back into the Operational Planning and Control System (OPCS). In 1979 EDA's Program Evaluation Division initiated a Crosscut Evaluation System (CES). The CES includes:

(1) The development of a variety of impact evaluation methodologies, from simple to sophisticated, appropriate to each of EDA's major program areas (development finance, public works, technical assistance, and planning grants). Included are all of the OPCS impact evaluation methodologies.

(2) Field testing of a selection of these methodologies, including both the OPCS methodologies and more sophisticated methodologies, the results of which will provide checks and refinements to the OPCS system.

(3) A Multi-Year Tracking System for stratified samples of projects within each program area (including industrial parks in the public works area) that will follow projects longitudinally and obtain time profiles of the economic impacts of EDA assistance. These recurrent field surveys and analyses will pick up retrospective information, and will include projects initiated in past as well as current years.

It should be noted that the CES evaluations will meet all of the recommendations of Chapter 4 of the GAO study (page 42) except for the recommendation "that park applicants periodically submit (accomplishment) data to the appropriate regional offices." The CES Multi-Year Tracking System relieves regional office personnel of this added burden, and places the gathering of such data directly in the hands of EDA's analytical personnel.

CES feedback to OPCS is expected to improve all of the provisional standards contained in the OPCS Final Report, such as the $13,500 per job figure and the 1-3-7 year tentative evaluation cycle, discussed in the GAO report.

The second paragraph on page 33 indicates that EDA does not gather accomplishment data on projects funded in the past. Although it is true that EDA does not gather such data on a project-by-project basis, EDA does perform evaluations on a sample of projects, as described above. These studies will provide EDA with information with which to develop improved criteria and guidelines for selecting industrial park projects and estimating the size and time frame of their job impacts.

EDA Has Designed A System to Monitor and Evaluate Project Accomplishments

The $13,500 figure is misused throughout this chapter. On page 34 it is described as an EDA objective. Actually, the $13,500 is the average estimated cost per job for the entire public works portfolio of projects for a given year. It is a measure of direct and indirect jobs created and saved. It is expected that some individual projects will have a lower cost per job and others will have a higher cost per job. $13,500 is not a rigidly enforced standard against which proposed projects are judged. It is primarily used to estimate the number of jobs the entire public works program will probably save or create at different budget levels. The report improperly assumed that the $13,500 job cost standard was firmly established, only to be changed to account for inflation.

The time frames (described on page 35, paragraph 2) within which jobs will actually occur (5% first year, 60% third year, etc.) are first-cut estimates based on past evaluations which need to be updated. One of the purposes of the ongoing Cross-Cut Evaluation is to help EDA refine and update these estimates.

Refinements To The System are Needed

The OPCS cost criterion (paragraph 1 on page 36) is misused. As part of OPCS, the expected impact of individual projects is estimated so the relative merits of proposed projects can be compared. As the evaluation component of OPCS, CES will look at individual project performance, the performance of categories of projects, and overall program performance.

Cost Criterion Per Job

The Agency recognizes the need to further refine our ability to estimate how many jobs will occur in an industrial park and when. As mentioned earlier, our evaluations will help us do this on an ongoing basis. Information should be based on immediately identifiable jobs, probable jobs, or the job-creation potential of parks if fully occupied. New estimating guidelines will be issued based on the analysis of this information.

The first full paragraph on page 37 contrasts industrial park projects to other public works projects, e.g., skill training centers, tourism facilities, etc., indicating that these other projects are designed to provide direct job opportunities at the facilities. This comparison is inaccurate since the objectives of the latter types of projects relate to the economic impacts such projects will have on a community, particularly the attraction of private investment to an area. The direct jobs that will be created at the facilities are not the justification for the projects.

Measuring Actual Job Accomplishment

The description of the use of the ED-612 on page 39 needs to be clarified. The 612 applies only to firms that create or save 15 or more jobs and was designed originally for and is primarily a means of monitoring compliance with Civil Rights requirements. It will also provide the Agency with some evaluation data, but the evaluation studies are our primary system for gathering information on post-approval accomplishments. In order to reduce the reporting burden on the public and to focus our Civil Rights monitoring on businesses which are the primary beneficiaries of Agency assistance and are the major basis for project justification, the 612 reporting requirement is limited to businesses which locate in the industrial park prior to final disbursement.

Recommendations

Refine the Operational Planning and Control System. These refinements should include (1) reducing the cost-per-job criterion if actual results show the criterion is too high, (2) developing and using criteria on park utilization rates along with the cost-per-job criterion to measure park success, (3) revising the time frames for realizing employment projections from 7 years after the year of approval to 10 years after park completion, and (4) requiring that actual employment data be received from all businesses that locate in the parks.

We agree with the first two parts of the above recommendation. We particularly believe that the percent of industrial space occupied would be a useful performance measurement. On the third part, rather than expand the data collecting for OPCS to 10 years, we will wait until the data on the time frame in which jobs occur is collected by the Cross-Cut Evaluation System to help us determine the appropriate time frames.

We do not believe it will be possible or practical to receive reports from each business that locates in an EDA-funded industrial park. The time lapses between the approval of projects and location of businesses can be 20 years. It does not seem practical to ask businesses to report to EDA. The evaluation system will provide sufficient information to EDA to adequately assess the success of industrial park projects.

Identify and gather accomplishment data needed to properly monitor and evaluate park projects not covered by the Operational Planning and Control System. To preserve limited staff resources, EDA should request that park applicants periodically submit this data to the appropriate regional offices.

Although we agree that there is a need to monitor the accomplishments of industrial parks, the GAO should recognize that there are strict OMB restrictions on increasing the public's reporting burden. EDA would find it very difficult to require reports from grantees throughout the life of the project. In addition, given our staffing restrictions, we will consider utilizing local organizations, such as economic development districts, as the monitors for EDA.

Disseminate prior studies on park projects to appropriate regional offices for their use when considering the funding of future projects.

We believe that most Regional Offices have received the reports on industrial parks, although if they have not or cannot locate them, we will make sure that they receive the studies.

Again, we thank you for the opportunity to review the study. Please be assured that EDA will focus on the issues raised and make modifications to the administration of its industrial park program where necessary. While we do not always agree with the recommendations of the report, it does clearly identify many of the problem areas of a Federally assisted industrial park program.

We would like to express our appreciation for the work which Chet Janik of your staff has done on this study. We would be glad to meet with him again to further discuss any of the points made in our response.

Sincerely,

Robert T. Hall
Assistant Secretary
for Economic Development

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